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Internal Audit Practitioner

IIA IAA-IAP

Version Demo

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Topic Break Down

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QUESTION NO: 1

According to The IIA's Code of Ethics, which of the following best illustrates the principle of confidentiality?

A. The auditor refused to use information learned during an audit to diversify his financial portfolio.

B. The auditor declined to delegate critical audit lead responsibilities to a new auditor.

C. The auditor declined to lead an audit of a department in which his nephew is the manager.

ANSWER: A

Explanation:

The auditor refused to use information learned during an audit to diversify his financial portfolio. This directly demonstrates confidentiality because an internal auditor must protect information acquired while performing professional duties and must not use that information for personal benefit. Audit work can provide access to nonpublic financial, operational, strategic, and personnel information. Even if the information could help an auditor make a better personal investment decision, using it to adjust or diversify a personal portfolio would convert privileged audit knowledge into a private advantage.

The IIA's former Code of Ethics described confidentiality as respecting the value and ownership of information received and not disclosing it without appropriate authority, unless there is a legal or professional obligation to do so. Its rules of conduct also expressly prohibited internal auditors from using information for personal gain or in a manner contrary to the law or detrimental to the legitimate and ethical objectives of the organization. Refusing to make investment decisions based on information learned in an audit therefore preserves the organization's trust, protects sensitive information, and maintains the ethical boundary between professional access and personal interests. See The IIA's Code of Ethics guidance and its Global Internal Audit Standards.

QUESTION NO: 2

During an audit of procurement, an internal auditor identifies several payments to a vendor whose bank account is also used by an employee. The auditor has not yet determined whether fraud occurred. What is the most appropriate next action?

A. Confront the employee and request an explanation for the shared bank account.

B. Preserve relevant information and report the suspected fraud risk through established procedures.

C. Conclude that fraud occurred and include the conclusion in the final report.

ANSWER: B

Explanation:

The auditor should preserve relevant information and communicate the suspected fraud risk through the organization's established investigation and escalation procedures. A shared bank account is a significant indicator that warrants prompt, objective follow-up, but it does not by itself establish that fraud has occurred.

The auditor should not confront the employee or make an accusation without appropriate authority and sufficient evidence. Alerting the employee could compromise an investigation or allow records to be altered. Internal audit should follow applicable protocols, which may involve legal counsel, fraud specialists, security, human resources, or designated management and board contacts.

QUESTION NO: 3

During an engagement, an internal auditor receives an anonymous allegation that an employee has been accepting gifts from a supplier. The allegation is not supported by evidence at this stage. What is the most appropriate response?

A. Accuse the employee and request an immediate explanation in the presence of the supplier.

B. Document the allegation and perform appropriate fact-finding procedures while maintaining confidentiality.

C. Ignore the allegation because anonymous information cannot be considered in audit work.

ANSWER: B

Explanation:

The auditor should treat the allegation as a potential fraud risk indicator, preserve confidentiality, and perform or arrange appropriate fact-finding procedures consistent with internal policies and the engagement's authority. The allegation alone does not establish misconduct, but it may warrant a proportionate assessment of relevant transactions, conflicts-of-interest disclosures, and supplier relationships.

The auditor should not accuse the employee or communicate an unverified allegation broadly. Ignoring the allegation would also be inappropriate because internal auditors are expected to consider fraud risks and respond objectively to relevant indicators.

QUESTION NO: 4

During a travel expense audit engagement, the internal auditor discovered that the accounts payable staff spend a significant amount of time previewing expense reports before the reports are sent to managers for review and approval. The total of all expense reports during a year represents less than 1% of the organization’s total budget. Which of the following best supports the auditor’srecommendation to reduce the level of reviews?

A. The inherent risk of travel expense fraud is low.

B. The cost of the control outweighs the benefit.

C. The duplication of effort in the review process is unnecessary.

ANSWER: B

Explanation:

The cost of the control outweighs the benefit. Internal controls should be designed and applied in a manner proportionate to the risks they address and the value of the resources being protected. Here, accounts payable staff devote significant time to previewing reports before the reports proceed to managerial review and approval. Since the annual population of travel expenses represents less than 1% of the organization’s total budget, the potential financial exposure indicated by the facts is relatively limited. The auditor therefore has a sound basis to assess whether the staff time, processing delay, and administrative effort consumed by this preliminary review are justified by the incremental risk reduction it provides.

A recommendation to reduce the review level does not mean eliminating appropriate accountability for expenses. Rather, it supports redesigning the process so that control activities are efficient while continuing to provide reasonable assurance over valid business expenses, authorization, and compliance. For example, the organization may retain manager approval while applying targeted or risk-based accounts payable review to unusual, high-value, or exception items. This reflects the established control principle that controls are selected and developed to mitigate risks to acceptable levels in view of relevant costs and benefits. See the IIA’s Global Internal Audit Standards and COSO’s Internal Control—Integrated Framework guidance.