



**Risk Governance
Institute**

Certified Internal Auditor (CIA)

Part 1

Course Book

Introduction

Welcome to this exam preparation course book for the Certified Internal Auditor (CIA), a certification from the Institute of Internal Auditors (IIA).

The CIA is the most globally recognized certification in internal audit. There are over 185,000 CIAs in 170+ countries. It is an entry point to other internal audit certifications. It is therefore strongly recommended that any internal auditor should start working on the CIA certification as soon as they start in their audit career, or even before for aspiring internal auditors.

This course has helped many people improve their chances at the CIA, from global Chief Audit Executives to interested students: this course is suited for anyone with an interest in internal audit.

It will help you understand the role that internal audit functions play in an organization and the principles and standards of the profession. It will help you know how to apply key concepts such as independence and objectivity. You will learn how to keep in good standing by knowing how to follow the code of ethics and how to show due professional care and proficiency.

If you manage an internal audit team or want to be ready for when you do, it will help you know whether your reporting lines are appropriate and how to improve your department through quality assurance. You will learn about the essential areas of governance, risk management and internal controls where auditors put much of their work effort. Finally, you will better know how to react if you suspect fraud within your organization.

Most importantly, it aims to help you 'think' like an internal auditor, which I find is essential for scoring highly on the exam as well as being a great internal auditor.

Sincerely,

Adrian Resag, QIAL, CMIIA, CIA, CISA, CRMA, GRCP, GRCA, IAAP, CFSA, CCSA, SIRM, CIMA
Adv Dip MA

The course covers

This course covers all areas in which you need to be proficient for the CIA Part 1. It is intended to fully replace the text book from the Institute of Internal Auditors (IIA).

It does not cover all the same content intentionally, but spends more time on what experience has taught us needs more depth, and less time on what we see as less important for the exam.

CIA Part 1 Introduction and Exam Strategy

- Introduction to the CIA certification, overview of the content of CIA Part 1 and exam strategies.

Fundamental concepts of Internal Auditing

- Understand the purpose of an internal audit function, what internal audit does and the principles, framework and standards of the profession.

Independence, Objectivity and Ethics

- Proficiently understand the critical notion of independence and be able to identify if an audit function has organizational independence.
- Know how to always act ethically as an internal auditor.

Due Professional Care and Proficiency

- Know which areas internal auditors need to be proficient (and which they don't). Learn how to show or identify due professional care.
- Recognize how this affects the staffing of internal audit functions.

Quality Assurance and Improvement Program

- Know how to conduct an internal audit quality internal assessment and how external assessments must be performed.

Governance, Risk Management and Internal Control

- Gain an understanding of internal audit's role in governance, risk management and internal controls.
- Learn about different frameworks for assessing these areas.

Fraud Risks and Culture

- Learn how to identify fraud risks and what to do if fraud is suspected. See how internal audit can change an organization's culture.

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I. CIA Part 1 Introduction and Exam Strategy

I.1. CIA certification overview

The Institute of Internal Auditor's (IIA) Certified Internal Auditor (CIA) certification:

- It is the most globally recognized certification in internal audit.
- There are over 185,000 CIAs in 170+ countries.
- It is an entry point to other internal audit certifications.

There are 3 parts to the CIA certification, as follows:

Part 1 Essentials of Internal Auditing Focus on the foundations and principles of internal audit.	Part 2 Practice of Internal Auditing Focus on practical knowledge on how to conduct and manage internal audits.	Part 3 Business Knowledge for Internal Auditing Focus on knowledge important in the business context.
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1) CIA Part 1 Essentials of Internal Auditing

The exam lasts 2.5 hours and has 125 questions.

2) CIA Part 2 Practice of Internal Auditing

The exam lasts 2 hours and has 100 questions.

3) CIA Part 3 Business Knowledge for Internal Auditing

The exam lasts 2 hours and has 100 questions.

I.2. CIA exam planning

Candidates can start with any Part of the CIA. All Parts of the CIA should be completed within 3 years.

There is no minimum or maximum time between exams. If you fail an exam, you will need to wait 60 days to try again.

We suggest candidates take the course, then plan the exam for 2-3 months later to give enough time to revise the content and perform practice questions.

II.5. The Standards

There are 3 types of standards included in the Standards:

1) Attribute Standards

- Characteristics of those performing internal audit activities.
- Apply to both internal audit services and auditors.

<p>1000 Purpose, Authority, and Responsibility</p> <p>1100 Independence and Objectivity</p> <p style="padding-left: 20px;">1110 Organisational Independence</p> <p style="padding-left: 20px;">1120 Individual Objectivity</p> <p style="padding-left: 20px;">1130 Impairment to Independence or Objectivity</p> <p>1200 Proficiency and Due Professional Care</p> <p style="padding-left: 20px;">1210 Proficiency</p> <p style="padding-left: 20px;">1220 Due Professional Care</p> <p style="padding-left: 20px;">1230 Continuous Professional Development</p> <p>1300 Quality Assurance and Improvement Program (QAIP)</p>	<p style="text-align: center;"><small>INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)</small></p> <p><small>Introduction to the Standards</small></p> <p><small>Internal auditing is conducted in diverse legal and cultural environments, for organizations that vary in purpose, size, complexity, and structure, and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity.</small></p> <p><small>The purpose of the Standards is to:</small></p> <ol style="list-style-type: none"> <small>1. Guide adherence with the mandatory elements of the International Professional Practices Framework.</small> <small>2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.</small> <small>3. Establish the basis for the evaluation of internal audit performance.</small> <small>4. Foster improved organizational processes and operations.</small> <p><small>The Standards are a set of principles-based, mandatory requirements consisting of:</small></p> <ul style="list-style-type: none"> <small>• Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.</small> <small>• Interpretations clarifying terms or concepts within the Standards.</small> <p><small>The Standards, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework, therefore, conformance with the Code of Ethics and the Standards demonstrates conformance with all mandatory elements of the International Professional Practices Framework.</small></p> <p><small>The Standards employ terms as defined specifically in the Glossary. To understand and apply the Standards correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the Standards use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.</small></p> <p><small>The Standards comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.</small></p> <p><small>Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (A) or consulting (C) services.</small></p> <p><small>Revised October 2016 Effective January 2017</small></p> <p style="text-align: right;"><small>Page 1 of 25</small></p> <p style="text-align: center;"><small>© 2016 The Institute of Internal Auditors</small></p>
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2) Performance Standards

- Are the quality criteria used for evaluating internal audit performance.
- Describe the nature of internal audit work.

<p style="text-align: center;"><small>International Standards for the Professional Practice of Internal Auditing (Standards)</small></p> <p><small>Performance Standards</small></p> <p>2000 – Managing the Internal Audit Activity</p> <p><small>The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</small></p> <p><small>Interpretation:</small></p> <p><small>The internal audit activity is effectively managed when:</small></p> <ul style="list-style-type: none"> <small>• It achieves the purpose and responsibility included in the internal audit charter.</small> <small>• It conforms with the Standards.</small> <small>• Its individual members conform with the Code of Ethics and the Standards.</small> <small>• It considers trends and emerging issues that could impact the organization.</small> <p><small>The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.</small></p> <p>2010 – Planning</p> <p><small>The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.</small></p> <p><small>Interpretation:</small></p> <p><small>To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.</small></p> <p>2010.A1 – <small>The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</small></p> <p>2010.A2 – <small>The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.</small></p> <p>2010.C1 – <small>The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.</small></p> <p>2020 – Communication and Approval</p> <p><small>Revised: October 2016 Effective: January 2017</small></p> <p style="text-align: right;"><small>Page 10 of 25</small></p> <p style="text-align: center;"><small>© 2016 The Institute of Internal Auditors</small></p>	<p>2000 Managing the Internal Audit Activity</p> <p>2100 Nature of Work</p> <p>2200 Engagement Planning</p> <p>↓</p> <p>2300 Performing the Engagement</p> <p>↓</p> <p>2400 Communicating Results</p> <p>↓</p> <p>2500 Monitoring Progress</p> <p>↓</p> <p>2600 Communicating the Acceptance of Risks</p>
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3) Implementation Guidance

- Expand on the Standards.
- Are instructions for implementing the Standards.

1000—Purpose, Authority, and Responsibility

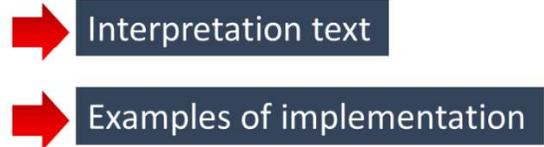
The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

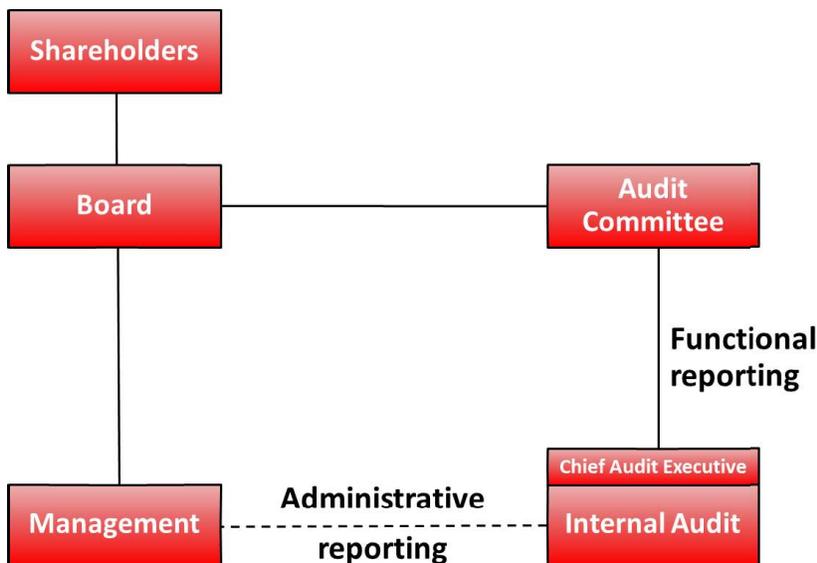


II.6. Organizational Independence

Independence is “The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.”¹

Organizational independence exists if the Chief Audit Executive:

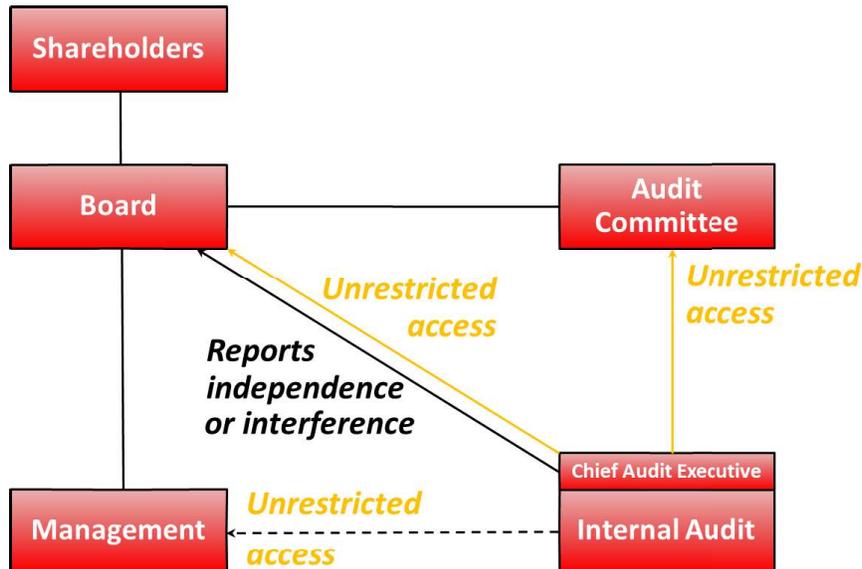
- Reports functionally to the Board
- Reports administratively to the CEO (or similar)



¹ Institute of Internal Auditors, IPPF Glossary

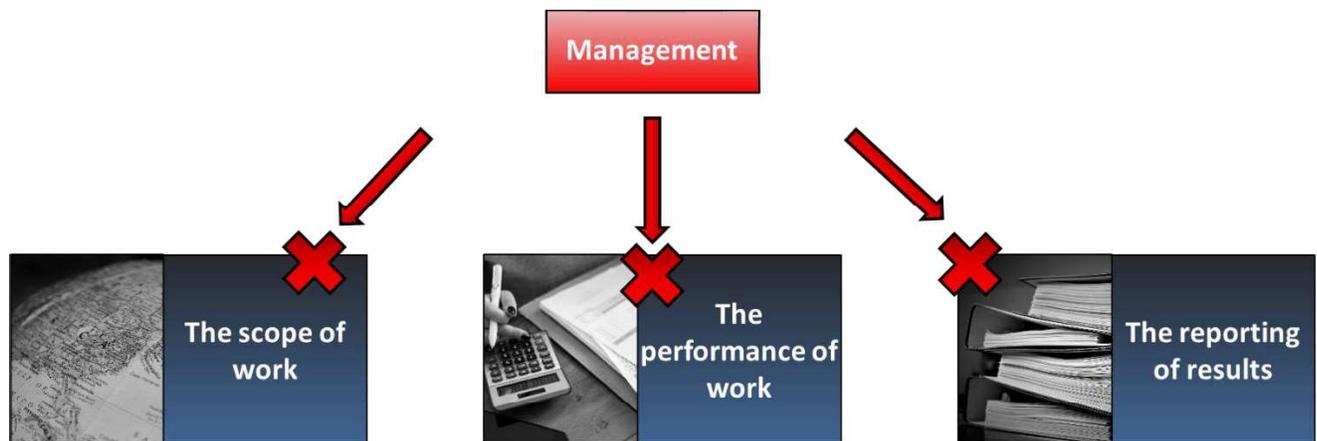
To ensure independence², the following measures should be in place:

- The Chief Audit Executive (CAE) has direct and unrestricted access to the Board and Senior Management.
- Annual reporting on organizational independence to the Board.
- Internal Audit must be free from interference, or must disclose this to the Board.



Internal Audit must control without interference:

- The scope of work
- The performance of work
- The reporting of results

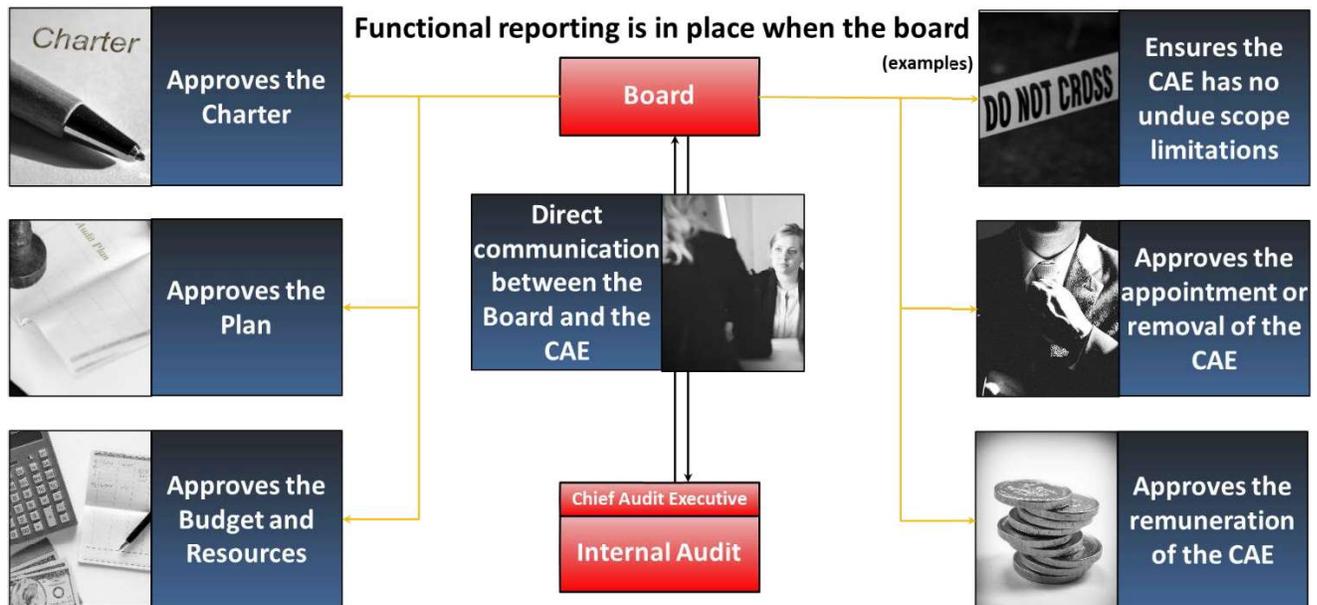


² IIA Standard 1110 (Organizational Independence)

II.6.1. Functional reporting

Functional reporting is in place when the board (examples):

- Approves the Charter.
- Approves the Internal Audit Plan.
- Approves the Budget and Resources.
- Ensures the Chief Audit Executive (CAE) has no undue scope limitations.
- Approves the appointment or removal of the CAE.
- Approves the remuneration of the CAE.
- There is direct communication between the Board and the CAE.

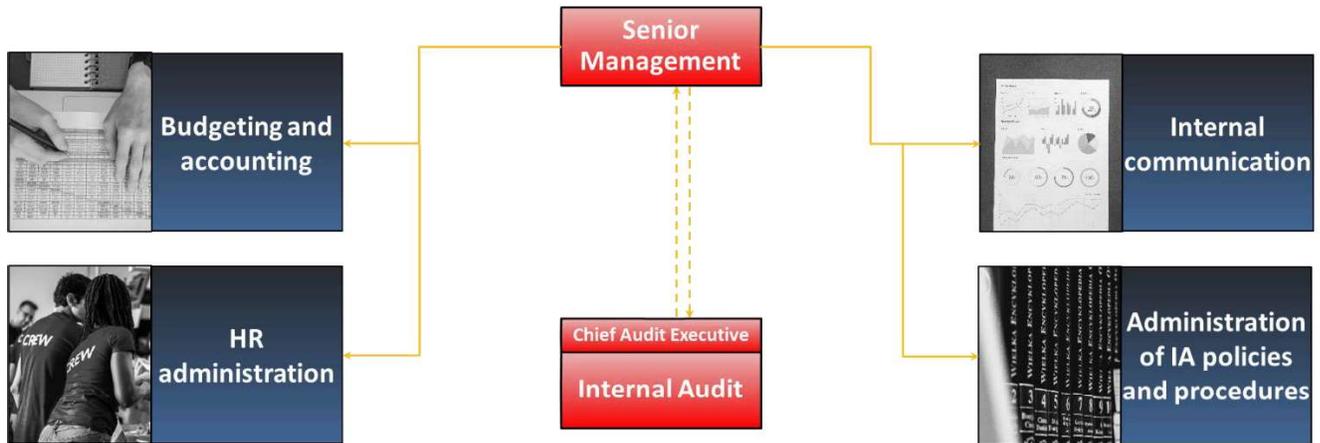


II.6.2. Administrative reporting

Administrative reporting facilitates day-to-day operations.

Examples include management help with:

- Budgeting and accounting.
- HR administration.
- Internal communication.
- Administration of Internal Audit policies and procedures.



II.7. Internal Audit Charter

The Charter establishes Internal Audit's:

- Independence
- Position, reporting lines, accountability
- Scope
- Mission
- CAE and internal auditor responsibilities
- Unfettered access rights
- Right to contact and other rights

Standards

The Standards have been reworded for simplicity.

1000 Purpose, Authority, and Responsibility

The purpose, authority and responsibility of internal audit must be **defined in a Charter** (for assurance or consulting).

The **mandatory nature** of the Core Principles, Definition of Internal Audit, Code of Ethics and Standards must be **recognized in the Charter**.

The CAE must **periodically review the Charter** and present it to **Senior Management and the Board for approval**.

II.8. Code of Ethics³

There are 4 fundamental principles in the Code of Ethics of the Institute of Internal Auditors:

- Integrity
- Objectivity
- Confidentiality
- Competence



II.8.1. Integrity

To act with integrity, internal auditors must:

- 1.1. Perform their work with honesty, diligence, and responsibility.
- 1.2. Observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Respect and contribute to the legitimate and ethical objectives of the organization.

³ Institute of Internal Auditors (IIA) Code of Ethics

Example:

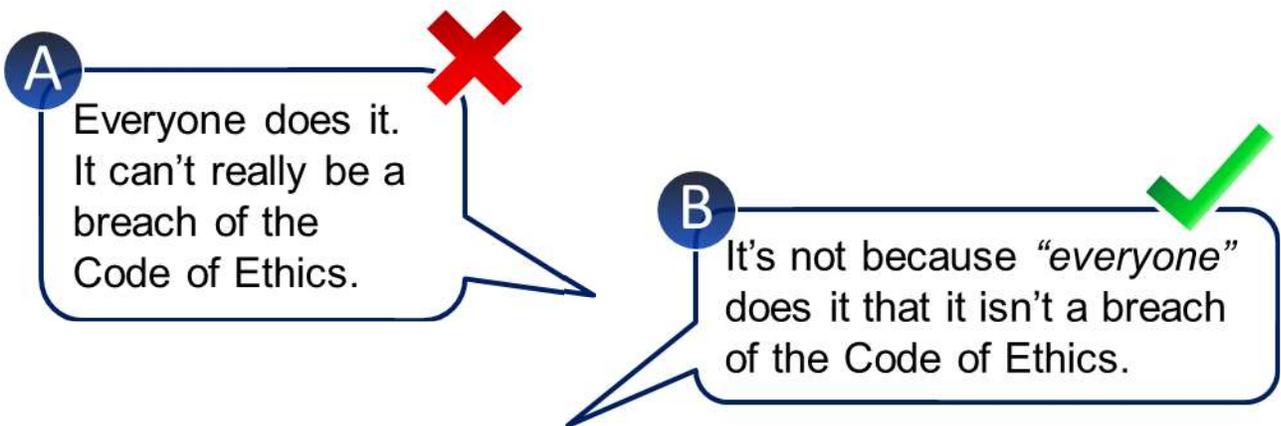
You are the only internal auditor in your company and the Board doesn't really request much from you.

You have been spending a lot of time on Facebook and haven't really gone in depth in your audits.

Of course, you know this is bad...

but is it really a breach of the Code of Ethics?

Yes it is. Internal auditors must "Perform their work with honesty, diligence, and responsibility."



II.8.2. Objectivity⁴

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no significant quality compromises are made.

Internal auditors⁵:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.

This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

⁴ IIA Standard 1100 guidance - Independence and Objectivity

⁵ Institute of Internal Auditors (IIA) Code of Ethics

IV. Quality Assurance and Improvement Program

A Quality Assurance and Improvement Program, also known as QAIP, is a crucial aspect of the internal audit process that focuses on ensuring and enhancing the overall quality and effectiveness of an organization's internal audit activities. It is a systematic and ongoing evaluation process designed to assess the internal audit function's performance, adherence to professional standards, and alignment with the organization's objectives.

Standards

The Standards have been reworded for simplicity.

1300 Quality Assurance and Improvement Program (QAIP) (1 of 2)

The Chief Audit Executive **must develop and maintain** a quality assurance and improvement program.

The QAIP must include both **internal and external assessments**.

Internal assessments must include **ongoing monitoring and self-assessment (or internal-assessments)**.

A qualified independent assessor external to the organisation must conduct an assessment at least every 5 years.

The main objectives of the Quality Assurance and Improvement Program are as follows:

- 1) **Assessing Compliance:** The program verifies whether the internal audit activities comply with the International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors (IIA) and any other relevant professional standards.
- 2) **Evaluating Effectiveness:** It evaluates the effectiveness of the internal audit function in contributing to the achievement of the organization's goals and objectives. This includes assessing whether internal auditors are providing valuable insights, recommendations, and assurance to support decision-making processes.
- 3) **Identifying Improvements:** The QAIP identifies areas for improvement within the internal audit process, methodologies, and procedures. It aims to enhance the efficiency and effectiveness of internal audit activities and recommends appropriate corrective actions when necessary.



- 4) **Ensuring Independence and Objectivity:** The program confirms that the internal audit function operates independently and objectively, free from undue influence or conflicts of interest that could impair the quality of audit work.
- 5) **Continuous Monitoring and Review:** The Quality Assurance and Improvement Program is an ongoing process, with regular reviews and assessments carried out periodically to ensure that the internal audit function maintains a high level of quality and adapts to changes in the organization's environment.
- 6) **External Assessment:** The IIA's Standards require that an external assessment of the internal audit function be conducted at least once every five years. This assessment is performed by independent assessors from outside the organization, and its findings are an essential part of the QAIP.

By implementing a robust Quality Assurance and Improvement Program, organizations can gain confidence in the reliability and value of their internal audit function, ensuring it remains a valuable asset in achieving the organization's objectives while adhering to professional standards and best practices.

IV.1.1. Scope of internal assessments

Internal assessments refer to the evaluations conducted by internal audit functions to assess their own performance, effectiveness, and adherence to professional standards and best practices.

The IIA's Quality Assessment Improvement Program is designed to enhance the overall quality of internal audit activities within an organization. As part of this program, internal audit functions are required to perform periodic internal assessments to evaluate the effectiveness of their internal audit processes, methodologies, and deliverables. These assessments are typically conducted by internal auditors or audit teams within the same organization but are independent of the audited activities.

 Supervision	 Compliance	 Audit effectiveness
<ul style="list-style-type: none"> Supervision and testing of audit performance 	<ul style="list-style-type: none"> Evaluate compliance with applicable laws and regulations 	<ul style="list-style-type: none"> Assess audit's contribution to GRC
<ul style="list-style-type: none"> Measurements and analyses of performance metrics 	<ul style="list-style-type: none"> Benchmark with the Standards and Code of Ethics 	<ul style="list-style-type: none"> Effectiveness of continuous improvement
	<ul style="list-style-type: none"> Evaluate the charter, goals, objectives, policies, procedures 	<ul style="list-style-type: none"> Staff mix of knowledge and experience
		<ul style="list-style-type: none"> Does audit add value, improve operations, help achieve objectives

IV.1.2. Scope of external assessments

External assessments refer to evaluations of an internal audit function conducted by independent and qualified external assessors. These assessors are individuals or firms outside of the organization being audited, and they have the necessary expertise and experience to assess the effectiveness, efficiency, and overall quality of the internal audit activities.

External assessments are an essential component of the IIA's International Standards for the Professional Practice of Internal Auditing (Standards). They are conducted to provide an objective and unbiased evaluation of the internal audit function's conformance with the Standards and its alignment with best practices.

The main objectives of external assessments are to ensure that the internal audit function adds value to the organization, operates with integrity, and follows professional standards and guidelines.

 Compliance	 Audit effectiveness
<ul style="list-style-type: none"> ▪ Evaluate compliance with applicable laws and regulations 	<ul style="list-style-type: none"> ▪ Assess audit's contribution to GRC
<ul style="list-style-type: none"> ▪ Benchmark with the Standards and Code of Ethics 	<ul style="list-style-type: none"> ▪ Effectiveness of continuous improvement
<ul style="list-style-type: none"> ▪ Evaluate the charter, goals, objectives, policies, procedures 	<ul style="list-style-type: none"> ▪ Staff mix of knowledge and experience
	<ul style="list-style-type: none"> ▪ Does audit add value, improve operations, help achieve objectives

IV.1.3. Reporting the results of the QAIP

Results of the Quality Assessment and Improvement Program (QAIP) should be reported as follows:

1300 Quality Assurance and Improvement Program (QAIP) (2 of 2)

The form and frequency of the external QAIP and any conflicts of interest must be discussed with the Board.

The results of the external QAIP must be communicated to Senior Management and the Board.

Disclosing non-conformances to Senior Management and the Board is required if it impacts internal audit's scope or activity.

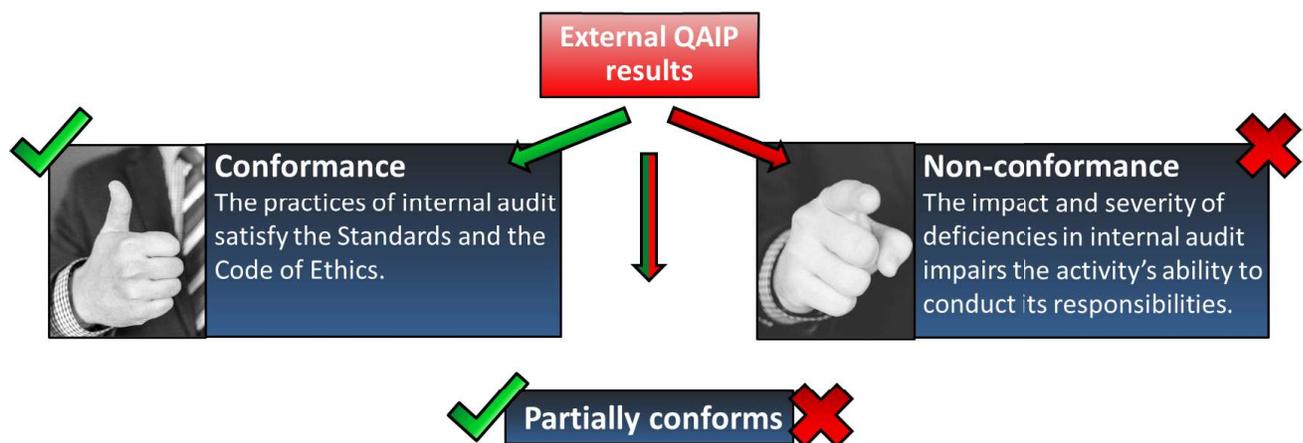
1) Internal assessments

The Chief Audit Executive must share the results, action plans and the status of implementing remediations with stakeholders (senior management, the board, and external auditors).

2) External assessments

Results should be discussed with the Chief Audit Executive during and at the end of the QAIP.

Final results should take the form of a formal report to the Chief Audit Executive or other official who authorized the review and to senior management and the board.



Internal Audit can use a statement of conformance with the Standards only if validated by assessments of an external QAIP (but not otherwise).

V. Governance, Risk Management, and Control

V.1. Internal Control

Internal controls are different processes in an organization which help keep the organization on track to meeting its goals and objectives.

Controls are actions taken by management, the board or others to manage the organization's risk in the aim of increasing the likelihood of achieving its goals and objectives.

Internal controls aim to:

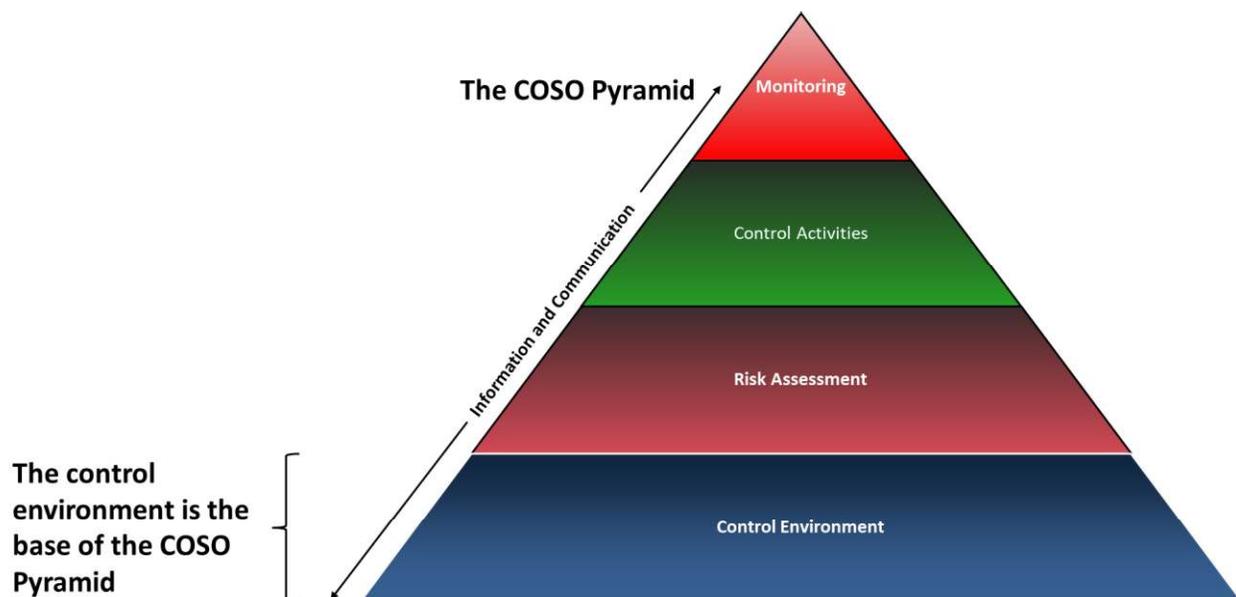
- Help achieve business objectives at the lowest costs.
- Contain risks within risk the organization's tolerance for risk.

V.1.1. Definition of control environment

The control environment is the board and management's attitude and actions on the importance of control in the organization.

It includes:

- Management's philosophy and style
- The organizational structure
- Integrity, ethical values, etc.



V.1.2. Main functions of controls

Controls have 4 main functions:

1) Directive

Causes or encourages a desirable event to occur.

Examples: guidelines, training, incentives



2) Preventive

Deters undesirable events from occurring.

Examples: access restrictions, approvals, maintenance.



3) Detective

Detects undesirable events that have occurred.

Examples: reconciliations, exception reports.



4) Corrective

Aims to correct errors or irregularities.

Examples: business Continuity Planning, backup and recovery, audit trails.

