

GLEIM[®]

**2023
EDITION**

CIA REVIEW

PART 1: ESSENTIALS OF INTERNAL AUDITING

by

Irvin N. Gleim, Ph.D., CPA, CIA, CMA, CFM

Aligned with the 2019 CIA exam reorganization

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ACCOUNTING TITLES FROM GLEIM PUBLICATIONS

CIA Review:

- Part 1: Essentials of Internal Auditing
- Part 2: Practice of Internal Auditing
- Part 3: Business Knowledge for Internal Auditing
- CIA Challenge Exam

CMA Review:

- Part 1: Financial Planning, Performance, and Analytics
- Part 2: Strategic Financial Management

CPA Review:

- Auditing & Attestation (AUD)
- Business Environment & Concepts (BEC)
- Financial Accounting & Reporting (FAR)
- Regulation (REG)

EA Review:

- Part 1: Individuals
- Part 2: Businesses
- Part 3: Representation, Practices and Procedures

Exam Questions and Explanations (EQE) Series:

- Auditing & Systems
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A MESSAGE FROM OUR AUTHORS

In 1980, we set out with one goal: to help **you** prepare to pass the CIA exam. We were **the first** CIA review course, and our mission was and continues to be to provide an affordable, effective, and easy-to-use study program. Gleim CIA Review materials comprehensively cover The IIA's CIA Exam Syllabus. While the delivery and technology have changed over the years and are always evolving, our mission and the core learning techniques that we have perfected over the last 40+ years remain the same.

The outline presentation, the spacing, and the question-and-answer formats in this book are designed to facilitate readability, learning, understanding, and your success on the CIA exam. Our most successful candidates use the Gleim Premium CIA Review System*, which includes this book, our innovative SmartAdapt technology, first-of-its-kind Gleim Instruct video lectures, the Gleim Access Until You Pass guarantee, and comprehensive exam-emulating test questions. Our course

- ✓ Teaches how to optimize your score through learning strategies and exam-taking techniques.
- ✓ Defines the subject matter tested on Part 1 of the CIA exam.
- ✓ Outlines all of the Part 1 subject matter in 8 easy-to-use study units, including all relevant authoritative pronouncements.
- ✓ Presents multiple-choice questions taken or modeled from past CIA examinations to prepare you for the types of questions you will see on your CIA exams.
 - In our book, our answer explanations are presented to the immediate right of each multiple-choice question for your convenience. Use a piece of paper to cover our detailed explanations as you answer the question and then review all answer choices to learn why the correct answer is correct and why the other choices are incorrect.
 - You also should practice answering questions through our online platform so you are comfortable answering questions online like you will do on test day. Our adaptive course will focus and target your weak areas.
- ✓ Contains The IIA Glossary and a cross-reference between The IIA CIA Exam Syllabus and the Gleim CIA materials.

Thank you for trusting us as your CIA review provider. Gleim continues to celebrate 40+ years of being the leading CIA review course. We look forward to helping you pass the CIA exam and achieve career success.

We appreciate any and all feedback from candidates like you. Please go to www.gleim.com/feedbackCIA1 to share suggestions on how we can improve this edition.

Please reach out to us immediately after the exam upon receipt of your exam scores. While the CIA exam is nondisclosed, and you must maintain confidentiality of any CIA questions or answers and agree not to divulge the nature of its content, we ask for you to provide information about our materials, such as the topics that need to be added or expanded, so that we are providing the best review materials possible.

Good Luck on the Exam,

Irvin N. Gleim

*Visit www.gleimcia.com or call (800) 874-5346 to order.

PREPARING FOR AND TAKING THE CIA EXAM

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READ THE CIA EXAM GUIDE: A SYSTEM FOR SUCCESS

In addition to this book, access the free Gleim **CIA Exam Guide** at www.gleim.com/passCIA and reference it as needed throughout your studying process to obtain a deeper understanding of the attributes that make up the CIA exam. This booklet is your system for success.

OVERVIEW OF THE CIA EXAMINATION

The total exam is 6.5 hours of testing (including 5 minutes per part for a survey). It is divided into three parts, as follows:

CIA Exam (3-Part)			
Part	Title	Exam Length	Number of Questions
1	Essentials of Internal Auditing	2.5 hrs	125 multiple-choice
2	Practice of Internal Auditing	2 hrs	100 multiple-choice
3	Business Knowledge for Internal Auditing	2 hrs	100 multiple-choice

All CIA questions are multiple-choice. The exam is offered continually throughout the year. The CIA exam is computerized to facilitate easier and more convenient testing. Pearson VUE, the testing company that The IIA contracts to proctor the exams, has hundreds of testing centers worldwide. Online testing is also available in select countries/territories, making testing more convenient. The online components of Gleim CIA Review provide exact exam emulations, or mirrors, of the Pearson VUE computer screens and procedures so you feel comfortable at the testing center on exam day.

SUBJECT MATTER FOR PART 1

Below, we have provided The IIA's abbreviated CIA Exam Syllabus for Part 1. This syllabus is for the revised CIA exam offered since January 1, 2019. The percentage coverage and approximate questions for each topic are indicated to its right. We adjust the content of our materials to any interim changes in The IIA's CIA Exam Syllabus announced by The IIA.

Part 1: Essentials of Internal Auditing		Approximate Questions
I. Foundations of Internal Auditing	15%	19
II. Independence and Objectivity	15%	19
III. Proficiency and Due Professional Care	18%	23
IV. Quality Assurance and Improvement Program	7%	9
V. Governance, Risk Management, and Control	35%	43
VI. Fraud Risks	10%	12
		<hr/> 125

At the time of print, exams for the revised syllabus are currently available in Arabic, Simplified Chinese, Traditional Chinese, English, French, German, Japanese, Korean, Polish, Portuguese, Spanish, Thai, and Turkish. Candidates taking the exam in these languages should use this 2023 edition of Gleim CIA Review.

Appendix B contains the CIA Exam Syllabus in its entirety as well as cross-references to the subunits in our text where topics are covered. Remember that we have studied the syllabus in developing our CIA Review materials. Accordingly, you do not need to spend time with Appendix B. Rather, it should give you confidence that Gleim CIA Review is the best and most comprehensive review course available to help you PASS the CIA exam.



SUCCESS TIP

The IIA has reported concerns from Part 1 candidates that Part 1 has tested topics that should be tested in Part 2 or Part 3. The IIA has clarified that while a Part 1 question may mention a Part 3 topic, such as IT terminology, the question is not testing the IT concept. Rather, it is testing a candidate's understanding and interpretation of a Part 1 concept, such as objectivity, using an industry-related scenario, such as IT.

The takeaway is that candidates should read each question carefully and focus on the concepts in Part 1 and how the material relates to ethics, proficiency, governance, risk management and control, and fraud.

WHICH PRONOUNCEMENTS ARE TESTED?

New pronouncements are eligible to be tested on the CIA exam beginning 6 months after a pronouncement's effective date. Rest assured that Gleim updates these materials as appropriate when any new standard is testable and will only cover what candidates need for the current CIA exam.

NONDISCLOSED EXAM

As part of The IIA's nondisclosure policy and to prove each candidate's willingness to adhere to this policy, a Nondisclosure Agreement and General Terms of Use must be accepted by each candidate before each part is taken. This statement is reproduced here to remind all CIA candidates about The IIA's strict policy of nondisclosure, which Gleim consistently supports and upholds.

I agree to comply with and be bound by The IIA's rules, including this nondisclosure agreement and general terms of use.

I understand that The IIA's exam is confidential and secure, protected by civil and criminal laws of the United States and elsewhere. This exam is confidential and is protected by copyright law.

I have not accessed live questions that might appear on my exam. I agree not to discuss the content of the exam with anyone.

I will not record, copy, disclose, publish, or reproduce any exam questions or answers, in whole or in part, in any form or by any means before, during, or after I take an exam, including orally; in writing; in any internet chat room, message board, or forum; by SMS or text; or otherwise.

I have read, understand, and agree to the terms and conditions set forth in The IIA's Certification Candidate Handbook, including fees, policies, and score invalidations for misconduct, irregularities, or breaches of The IIA's Code of Ethics.

I agree that The IIA has the right to withhold or invalidate any exam score when, in The IIA's judgment, there is a good faith basis to question the validity of a score for any reason, and I will forfeit my exam fee.

I understand that if I do not agree to this nondisclosure agreement and these conditions, I will not be permitted to take the exam, and I will forfeit my exam fee.

THE IIA'S REQUIREMENTS FOR CIA DESIGNATIONS

The CIA designation is granted only by The IIA. Candidates must complete the following steps to become a CIA®:

- ✓ Complete the appropriate certification application form and register for the part(s) you are going to take. Check the CIA blog at www.gleim.com/CIAApply for more information on the application and registration process. The CIA Review course provides a useful checklist to help you keep track of your progress and organize what you need for exam day.
- ✓ Pass all three parts of the CIA exam within 3 years of application approval (4 years if approved before September 1, 2019).
- ✓ Fulfill or expect to fulfill the education and experience requirements (see the free Gleim *CIA Exam Guide* for details).
- ✓ Provide a character reference proving you are of good moral character.
- ✓ Comply with The IIA's Code of Ethics.

ELIGIBILITY PERIOD

Credits for parts passed can be retained as long as the requirements are fulfilled. Candidates accepted into the certification program **on or after September 1, 2019**, must complete the program certification process within **3 years** of application approval. Candidates should note that this time period begins with application approval and not when they pass the first part. If a candidate has not completed the certification process within 3 years, all fees and previously passed exam parts will be forfeited. Candidates who received application approval **before September 1, 2019**, have **4 years** to complete the certification process.

Eligibility Extension: Candidates who have not successfully completed their exam(s), or who have been accepted into the program but have not taken their exam(s), have the opportunity to extend their program eligibility by 12 months. To take advantage of The IIA's one-time Certification Candidate Program Extension, candidates must pay a set fee per applicant and apply through the Candidate Management System.

Transition Information: Candidates who passed one or two parts of the exam prior to 2019 and still need to pass one or two parts will not lose credit for the part(s) already passed. Credit for any part(s) passed in the pre-2019 version of the exam remains valid for the 4-year eligibility window that begins with the application date.

MAINTAINING YOUR CIA DESIGNATION

After passing all three parts, you will receive an email confirming your certification. This email will let you know if any CPE has been awarded and what year you will need to submit information regarding CPE.

CIAs are required to take CPE to maintain and update their knowledge and skills. Practicing CIAs must complete and report 40 hours of Continuing Professional Education (CPE)—including 2 hours of ethics training—every year.

The reporting deadline is December 31. Complete your CPE Reporting Form through the online Certification Candidate Management System. Processing fees vary based on location, membership status, and the method you use to report. Contact Gleim for all of your CPE needs at www.gleim.com/cpe.

GLEIM CIA REVIEW WITH SMARTADAPT

Gleim Premium CIA Review features the most comprehensive coverage of exam content and employs learning techniques that help you prepare for the CIA exam with confidence. The Gleim CIA Review System is powered by our SmartAdapt technology, an innovative learning platform that continually identifies areas you should focus on and guides you through the learning process. Follow these steps for an optimized CIA review:

Step 1: Complete a Diagnostic Quiz.

As you work through this quiz, you will get immediate feedback on your answer choices. This allows you to learn by studying the detailed answer explanations while the quiz sets a baseline that our SmartAdapt technology will use to create a custom learning track.

Step 2: Read, watch, or listen based on your weak areas.

Study identified areas. Learn concepts from our streamlined outlines with detailed examples, topic summaries, tips, and color-coded standards. Watch selections identified from our highly acclaimed Gleim Instruct videos, featuring Dr. Joseph Mauriello, CIA, CPA, CMA. This will ensure you master the required skills.

Step 3: Practice answering multiple-choice questions.

Practice and perfect your question-answering techniques by taking the adaptive quizzes SmartAdapt has created for you to optimize your learning.

Final Review: Complete Mock Exams to complete your final review leading up to your exam.

After completing all study units, take the first Mock Exam, a full-length practice exam. Then, SmartAdapt will guide you through a Final Review based on your results. Finally, a few days before your exam date, take the second Mock Exam. SmartAdapt will tell you when you are ready so you can pass with confidence.

To facilitate your studies, the Gleim Premium CIA Review System uses the most comprehensive test bank of exam-quality CIA questions on the market. Our system's content and presentation are the most realistic representation of the whole exam environment allowing you to feel completely at ease on test day.

GLEIM KNOWLEDGE TRANSFER OUTLINES

This edition of the Gleim CIA Review books has the following features to make studying easier:

Examples

We use illustrative examples, set off in shaded boxes, to make the concepts more relatable.

EXAMPLE 2-1 Scope Limitation

An internal audit activity was recently engaged to audit the final balance of inventory for the financial statements. During the audit, senior management contacted the lead auditor and stated that the internal audit activity would not be given access to the physical inventory.

The denial of access to the inventory is a scope limitation. The internal audit activity needs to communicate the nature of the scope limitation and its potential effects to the board. This communication should preferably be in writing.

Gleim Success Tips

These tips supplement the core exam material by suggesting how certain topics might be presented on the exam or how you should prepare for an issue.



SUCCESS TIP

Knowledge of the IPPF is important for understanding and distinguishing among the elements of the authoritative guidance on internal auditing. But it is more important that you **understand** and can accurately **apply** the **content** contained in the IPPF. Parts 1 and 2 of the CIA exam primarily test understanding and application of IPPF content.

Flowcharts and Visuals

These images help to conceptualize ideas and make procedures clear.

- Governance does not exist independently of risk management and control. Rather, governance, risk management, and control (collectively referred to as GRC) are interrelated.

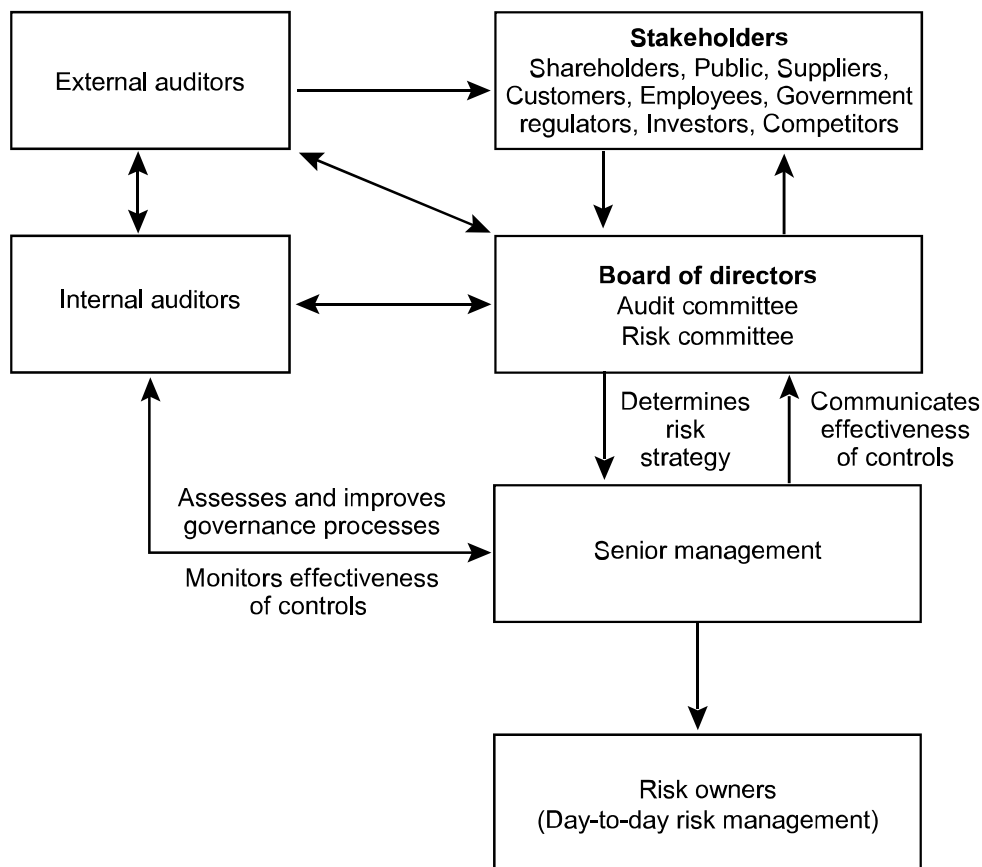


Figure 4-1

Memory Aids

We offer mnemonic devices to help you remember important concepts.

- A useful memory aid for the COSO components of internal control is “Controls stop **CRIME**.”

C	C ontrol activities
R	R isk assessment
I	I nformation and communication
M	M onitoring
E	C ontrol environment

Guidance Designations

In an effort to help CIA candidates better grasp The IIA's authoritative literature, we have come up with visual indicators to help candidates easily identify each type of guidance.



Attribute Standard 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.



Performance Standard 2120 **Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.



Interpretation of Standard 1000

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.



Implementation Standard 1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

TIME-BUDGETING AND QUESTION-ANSWERING TECHNIQUES FOR THE EXAM

Having a solid multiple-choice answering technique will help you maximize your score on each part of the CIA exam. Remember, knowing how to take the exam and how to answer individual questions is as important as studying/reviewing the subject matter tested on the exam. Competency in both will reduce your stress and the number of surprises you experience on exam day.

- **Budget your time so you can finish before time expires.**
 - Spend about 1 minute per question. This would result in completing 125 questions in 125 minutes to give you 25 minutes to review your answers and questions that you have marked.
- **Ignore the answer choices so that they will not affect your precise reading of the question.**
 - Only one answer option is best. In the MCQs, four answer choices are presented, and you know one of them is correct. The remaining choices are distractors and are meant to appear correct at first glance. *They are called distractors for a reason.* Eliminate them as quickly as you can.
 - In computational items, the distractors are carefully calculated to be the result of common mistakes. Be careful and double-check your computations if time permits.
- **Read the question carefully to discover exactly what is being asked.**
 - Focusing on what is required allows you to
 - ✓ Reject extraneous information
 - ✓ Concentrate on relevant facts
 - ✓ Proceed directly to determining the best answer
 - Be careful! The requirement may be an **exception** that features a negative word.
- **Decide the correct answer before looking at the answer choices.**
- **Read the answer choices, paying attention to small details.**
 - Even if an answer choice appears to be correct, do not skip the remaining answer choices. Each choice requires consideration because you are looking for the best answer provided.
 - Tip: Treat each answer choice like a true/false question as you analyze it.
 - Be careful choosing answer choices that include absolutes such as “always” or “never.”
 - Often an answer choice is a correct statement but is outside the scope of the question. For example, a question may ask for procedures, and the incorrect answer choices are procedures, albeit not the correct procedures for the topic.

- **Click on the best answer.**
 - You have a 25% chance of answering the question correctly by guessing blindly, but you can improve your odds with an educated guess.
 - For many MCQs, you can eliminate two answer choices with minimal effort and increase your educated guess to a 50/50 proposition.
 - ▶ Rule out answers that you think are incorrect.
 - ▶ Speculate what The IIA is looking for and/or why the question is being asked.
 - ▶ Select the best answer or guess between equally appealing answers. Your first guess is usually the most intuitive.
- **Answer the questions in consecutive order.**
 - Do **not** agonize over any one item or question. Stay within your time budget.
 - Never leave a multiple-choice question (MCQ) unanswered. Your score is based on the number of correct responses. You will not be penalized for answering incorrectly. If you are unsure about a question, do the following:
 - ✓ Make an educated guess,
 - ✓ Mark it for review at the bottom of the screen, and
 - ✓ Return to it before you submit your exam as time allows.

LEARNING FROM YOUR MISTAKES

During your studies, do not get frustrated if you score low on a practice quiz. It is an opportunity to learn, and learning from questions you answer incorrectly is very important. Each question you answer incorrectly is an **opportunity** to avoid missing actual test questions on your CIA exam. Thus, you should carefully study the answer explanations provided until you understand why the original answer you chose is wrong, as well as why the correct answer indicated is correct. This study technique is clearly the difference between passing and failing for many CIA candidates.

Also, you **must** determine why you answered questions incorrectly and learn how to avoid the same error in the future. Reasons for missing questions include

- ⊗ Misreading the requirement (stem)
- ⊗ Not understanding what is required
- ⊗ Making a math error
- ⊗ Applying the wrong rule or concept
- ⊗ Being distracted by one or more of the answers
- ⊗ Incorrectly eliminating answers from consideration
- ⊗ Not having any knowledge of the topic tested
- ⊗ Employing bad intuition when guessing

It is also important to verify that you answered correctly for the right reasons. Otherwise, if the material is tested on the CIA exam in a different manner, you may not answer it correctly.

HOW TO BE IN CONTROL WHILE TAKING THE EXAM

You have to be in control to be successful during exam preparation and execution. Control can also contribute greatly to your personal and other professional goals. Control is a process whereby you

- ✓ Develop expectations, standards, budgets, and plans
- ✓ Undertake activity, production, study, and learning
- ✓ Measure the activity, production, output, and knowledge
- ✓ Compare actual activity with expected and budgeted activity
- ✓ Modify the activity, behavior, or study to better achieve the desired outcome
- ✓ Revise expectations and standards in light of actual experience
- ✓ Continue the process or restart the process in the future

Exercising control will ultimately develop the confidence you need to outperform most other CIA candidates and PASS the CIA exam! Obtain our *CIA Exam Guide* for a more detailed discussion of control and other exam tactics.

IF YOU HAVE QUESTIONS ABOUT GLEIM MATERIALS

Gleim has an efficient and effective way for candidates who have purchased the Premium CIA Review System to submit an inquiry and receive a response regarding Gleim materials directly through their course. This system also allows you to view your Q&A session in your Gleim Personal Classroom.

Questions regarding the **information in this introduction and/or the *CIA Exam Guide* (study suggestions, studying plans, exam specifics)** should be emailed to personalcounselor@gleim.com.

Questions concerning **orders, prices, shipments, or payments** should be sent via email to customerservice@gleim.com and will be promptly handled by our competent and courteous customer service staff.

For **technical support**, you may use our automated technical support service at www.gleim.com/support, email us at support@gleim.com, or call us at (800) 874-5346.

FEEDBACK

Please fill out our online feedback form (www.gleim.com/feedbackCIA1) immediately after you take the CIA exam so we can adapt to changes in the exam. Our approach has been approved by The IIA.

GLEIM[®] CIA REVIEW

***We make it easier to keep
your CIA materials current.***

gleim.com/CIAupdate

Updates are available until the next edition is released.



STUDY UNIT ONE

FOUNDATIONS OF INTERNAL AUDITING

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This study unit covers **Domain I: Foundations of Internal Auditing** from The IIA's CIA Exam Syllabus. This domain makes up 15% of Part 1 of the CIA exam and is tested at the **basic** and **proficient** cognitive levels.

The **learning objectives** of Study Unit 1 are

- Interpret The IIA's Mission of Internal Audit, Definition of Internal Auditing, and Core Principles for the Professional Practice of Internal Auditing, as well as the purpose, authority, and responsibility of the internal audit activity
- Explain the requirements of an internal audit charter (required components, board approval, communication of the charter, etc.)
- Interpret the difference between assurance and consulting services provided by the internal audit activity
- Demonstrate conformance with The IIA Code of Ethics

Internal auditors perform assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management, and internal control processes using a systematic, disciplined, and risk-based approach. This may include evaluation of internal control, examination of financial and operating information, review of compliance with laws and regulations, and the assessment of fraud risk.

1.1 APPLICABLE GUIDANCE

International Professional Practices Framework (IPPF)

The Institute of Internal Auditors (The IIA) defines the **mission** of internal audit as follows:

- “To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”
- Facilitating the achievement of this mission is the IPPF.

The IPPF contains **mandatory** guidance and **recommended** guidance.



Figure 1-1

Mandatory Guidance

Adherence to the mandatory guidance is essential for the professional practice of internal auditing.

- The mandatory guidance consists of four elements:
 1. The **Core Principles** for the Professional Practice of Internal Auditing
 2. The **Definition of Internal Auditing**
 3. The **Code of Ethics**
 4. The **Standards**
- The Core Principles and the Definition of Internal Auditing are reflected in the Code of Ethics and the *Standards*. Thus, conformance with the Code and the *Standards* demonstrates conformance with all mandatory elements of the IPPF.
- If the *Standards* are used with requirements of other authoritative bodies, internal audit communications also may cite the other requirements. But, if the *Standards* and other requirements are inconsistent, internal auditors must conform with the *Standards* and may conform with the other requirements if they are more restrictive.



Figure 1-2