

Certified Internal Auditor® (CIA®) Examination

Part 3: Business Knowledge for Internal Auditing

SECTION A – CASE STUDY QUESTIONS

(Total: 40 Marks)

Answer all questions. Each question carries 20 marks.

Question 1 – Financial & Management Accounting (20 Marks)

Scenario:

GlobalTech Ltd. is experiencing reduced profit margins and inconsistent budgeting processes. The internal audit team was asked to evaluate the accuracy of financial reports and the effectiveness of cost control measures. During the audit, the team discovered that management had incorrectly recognized revenue and overlooked variances in cost centers.

Required:

- Evaluate the role of internal auditors in reviewing financial and management accounting practices.
- Explain the risks of revenue misstatement and cost misallocation.
- Recommend measures to strengthen internal control over financial reporting and budget monitoring.

May include but is not limited to:

- Revenue recognition principles
- Budgeting and variance analysis
- Financial reporting controls
- Internal auditor's role in detecting accounting irregularities

Question 2 – IT and Business Continuity (20 Marks)

Scenario:

EcoTrade Ltd. relies heavily on cloud-based systems for day-to-day operations. A recent system failure resulted in a two-day disruption, causing delays in customer service and financial reporting. The internal audit function has been asked to assess IT risk and business continuity preparedness.

Required:

- a) Describe the internal auditor's role in assessing IT controls and continuity planning.
- b) Identify risks associated with system failures and cyber threats.
- c) Recommend improvements to the company's IT governance and disaster recovery processes.

May include but is not limited to:

- IT general controls and application controls
- Data backup and recovery procedures
- Business continuity plans and risk mitigation
- IT audit techniques

SECTION B – DESCRIPTIVE QUESTIONS

(Total: 60 Marks)

Answer all questions. Each question carries 10 marks.

Question 3 – Financial Accounting and Reporting (10 Marks)

Required:

- a) Explain the purpose of financial statements and the internal auditor's role in reviewing them.
- b) Identify two accounting principles that affect audit review.

May include but is not limited to:

- Accrual accounting, matching principle
- Audit of journal entries and ledgers
- Compliance with accounting standards (e.g., IFRS)

Question 4 – Management Accounting (10 Marks)

Required:

- a) Discuss the use of standard costing and variance analysis in internal audit.
- b) Explain how internal audit supports cost management and budgeting.

May include but is not limited to:

- Types of variances (price, usage)
- Cost control procedures
- Forecasting and strategic cost analysis

Question 5 – Information Technology (10 Marks)

Required:

- a) Identify the key elements of IT governance relevant to internal audit.
- b) Describe how auditors assess system access and data integrity.

May include but is not limited to:

- IT governance frameworks (e.g., COBIT)
- Logical access controls
- Audit trails and system logs

Question 6 – Financial and Operational Performance (10 Marks)

Required:

- a) Describe KPIs and their importance in performance auditing.
- b) Explain how auditors evaluate operational effectiveness.

May include but is not limited to:

- Performance dashboards and scorecards
- Ratio analysis (e.g., ROI, profit margin)
- Process efficiency reviews

Question 7 – Corporate Governance (10 Marks)

Required:

- a) Define corporate governance and the role of internal audit in assessing governance practices.
- b) Identify key governance risks and how they are mitigated.

May include but is not limited to:

- Board oversight and accountability
- Risk escalation and whistleblower systems
- Governance frameworks (e.g., OECD, ISO 37000)

Question 8 – Internal Controls (10 Marks)

Required:

- a) Differentiate between preventive and detective controls.
- b) Explain how internal audit evaluates the design and effectiveness of controls.

May include but is not limited to:

- Types of controls: physical, IT, financial
- Control testing techniques
- Recommendations for control improvement