

# THE CPA LICENSURE EXAMINATION SYLLABUS

## AUDITING

Effective May 2016 Examination

This subject covers the candidates' knowledge of the principles and concepts of auditing and the practical application of these principles and concepts. There shall be two parts of this subject: Auditing Theory and Auditing Problems.

### AUDITING THEORY

This part covers the candidates' conceptual knowledge and understanding of assurance and related services performed by professional accountants. Candidates should know and understand the nature of assurance and related services particularly independent audits of financial statements, the responsibilities of professional accountants; the audit process; audit objectives, evidence, procedures, auditing standards, and the elements of the independent auditors' report. In all the areas included, the candidate shall apply the Philippine Standards on Auditing (PSA) and other regulatory laws and regulations in effect at the time of examination.

### AUDITING PROBLEM

This part covers the candidate's proficiency in applying audit standards, techniques, and procedures to a typical independent audit of a medium-sized service, trading or manufacturing concern. Candidate shall be able to plan and perform an audit, analyze data for possible errors and irregularities, formulate adjusting entries, resolve audit issues, prepare audit working papers and complete the audit including the preparation of the audit report. In all the areas included, the candidate shall apply the Philippine Standards on Auditing (PSA) and other regulatory laws and regulations in effect at the time of examination.

The knowledge of the candidates in the competencies cited above is that of an entry level accountant who can address the fundamental requirements of the various parties that the candidates will be interacting professionally in the future.

The candidates must also be able to communicate effectively matters pertaining to the audit work that will be handled.

Only new standards, interpretations and other issuances shall be included in the examinations if these are in effect for at least six (6) months at the date of the examination..

The examination shall have seventy (70) multiple choice questions.

### AUDITING THEORY

#### 1.0 Fundamentals of Auditing and Assurance Services

##### 1.1 Introduction to assurance engagements

###### 1.1.1 Nature, objective and elements

###### 1.1.2 Types of assurance engagements (audits, reviews, other assurance engagements)

###### 1.1.3 Assurance service vis-a-vis attestation services

##### 1.2 Introduction to auditing

###### 1.2.1 Nature, philosophy, and objectives

###### 1.2.2 Types of audit

- 1.2.2.1 According to nature of assertion/data (financial statements audit, operational audit, compliance audit)
  - 1.2.2.2 According to types of auditor (external independent financial statements audit, internal audit, government audit)
- 2.0 The Financial Statements Audit -Client Acceptance, Audit Planning, Supervision and Monitoring
  - 2.1 Overview of the audit process
  - 2.2 Pre-engagement procedures
  - 2.3 Scope and purposes of audit planning
    - 2.3.1 Essential planning requirements
      - 2.3.1.1 Knowledge of the business
      - 2.3.1.2 Preliminary analytical procedures
      - 2.3.1.3 Materiality
      - 2.3.1.4 Assessing and managing audit risks
      - 2.3.1.5 Overall audit plan and audit program (experts, internal auditor, other independent auditors)
  - 2.4 Direction, supervision and review
- 3.0 Understanding the Entity and its Environment Including its Internal Control and Assessing the Risks of Material Misstatement
  - 3.1 Industry, regulatory and other external factors, including the applicable financial reporting framework
    - 3.1.1 Nature of the entity
    - 3.1.2 Objectives and strategies and related business risks
    - 3.1.3 Measurement and review of the entity's financial performance
  - 3.2 Internal control
    - 3.2.1 Basic concepts and elements of internal control
    - 3.2.2 Consideration of accounting and internal control systems
      - 3.2.2.1 Understanding and documentation
      - 3.2.2.2 Assessment of control risks
        - 3.2.2.2.1 Test of controls
        - 3.2.2.2.2 Documentation
  - 3.3 Assessing the risks of material misstatement
    - 3.3.1 Fraud and errors
    - 3.3.2 Risk assessment procedures
    - 3.3.3 Discussion among the engagement team
    - 3.3.4 Significant risks that require special audit consideration
    - 3.3.5 Risks for which substantive procedures alone do not provide sufficient appropriate audit evidence
    - 3.3.6 Revision of risk assessment
  - 3.4 Communicating with those charged with governance and management
- 4.0 Audit Objectives, Procedures, Evidences and Documentation
  - 4.1 Nature and significance
  - 4.2 Evidential matters
  - 4.3 Audit procedures/techniques
  - 4.4 Audit working papers
- 5.0 Completing the Audit/ Post-Audit Responsibilities
  - 5.1 Completing the audit and audit report preparation
    - 5.1.1 Analytical procedures for overall review
    - 5.1.2 Related party transactions
    - 5.1.3 Subsequent events review

- 5.1.4 Assessment of going concern assumption
- 5.1.5 Obtaining client's representation letter
- 5.1.6 Evaluating findings, formulating an opinion and drafting the audit report
- 5.2 Post-audit responsibilities
  - 5.2.1 Subsequent discovery of facts
  - 5.2.2 Subsequent discovery of omitted procedures
- 6.0 Reports on Audited Financial Statements
  - 6.1 The unqualified auditor's report
  - 6.2 Basic elements of the unqualified auditor's report
  - 6.3 Modified auditor's report
    - 6.3.1 Matters that do not affect the auditor's opinion
    - 6.3.2 Matters that do affect the auditor's opinion
  - 6.4 Report on comparatives
- 7.0 Auditing in a Computerized Information Systems (CIS) Environment
  - 7.1 Internal control in a CIS environment
    - 7.1.1 Introduction
    - 7.1.2 Impact of computers on accounting and internal control systems
      - 7.1.2.1 General controls
      - 7.1.2.2 Application controls
    - 7.1.3 Unique characteristics of specific CIS
      - 7.1.3.1 Stand alone
      - 7.1.3.2 On-line
      - 7.1.3.3 Database system
  - 7.2 Basic approach to the audit of CIS environment
    - 7.2.1 Introduction
    - 7.2.2 Effects of computers on the audit process
    - 7.2.3 Computer assisted audit techniques
- 8.0 Other Assurance and Non-assurance Services
  - 8.1 Procedures and reports on special purpose audit engagements
    - 8.1.1 General considerations
    - 8.1.2 Audit of financial statements prepared in accordance with a comprehensive basis of accounting other than GAAP in the Philippines
    - 8.1.3 Audit of a component of financial statements
    - 8.1.4 Reports on compliance with contractual agreements
    - 8.1.5 Reports on summarized financial statements
  - 8.2 Nonaudit engagements: procedures and reports
    - 8.2.1 Examination of prospective financial information
    - 8.2.2 Engagements to review financial statements
  - 8.3 Nonassurance engagements
    - 8.3.1 Engagements to perform agreed-upon procedures regarding financial information
    - 8.3.2 Engagements to compile financial information

## AUDITING PROBLEM

- 1.0 Evidence Accumulation and Evaluation – Substantive Tests of Transactions and Balances
  - 1.1 Audit of the revenue and receipt cycle
    - 1.1.1 Audit of sales and revenue transactions
    - 1.1.2 Audit of receivable balances

- 1.1.3 Audit of cash receipt transactions / cash balance
- 1.2 Audit of expenditure and disbursement cycle
  - 1.2.1 Audit of acquisitions and purchases
  - 1.2.2 Audit of payroll transactions
  - 1.2.3 Audit of cash disbursement transactions / cash balance
  - 1.2.4 Audit of inventory balances
  - 1.2.5 Audit of trade payable balances
  - 1.2.6 Audit of prepaid expenses and accrued liabilities
- 1.3 Audit of production cycle
  - 1.3.1 Audit of conversion activities
  - 1.3.2 Audit of inventory balances: work-in-process and finished goods
  - 1.3.3 Audit of cost of goods sold balance
- 1.4 Audit of the financing cycle
  - 1.4.1 Audit of financing cycle transactions
  - 1.4.2 Audit of non-trade liability balances
  - 1.4.3 Audit of interest expense and finance cost balances
  - 1.4.4 Audit of equity accounts
- 1.5 Audit of investing cycle
  - 1.5.1 Audit of investing transactions
  - 1.5.2 Audit of investment account balances
  - 1.5.3 Audit of property, plant and equipment account balances
  - 1.5.4 Audit of intangible account balances
- 1.6 Audit of cash balances