

**THE CPA LICENSURE EXAMINATION SYLLABUS**  
**AUDITING THEORY**  
(Effective October 2006 Examination)

This subject tests 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.

Each examination will contain a minimum of 80 and a maximum of 100 multiple-choice questions, equitably allocated to different subject areas, as indicated below:

- 1.0 Fundamentals of Auditing and Assurance Services
  - 1.1 Introduction to assurance engagements
    - a. Nature, objective and elements
    - b. Types of assurance engagements (audits, reviews, other assurance engagements)
    - c. Assurance service vis-à-vis attestation services
  - 1.2 Introduction to auditing
    - a. Nature, philosophy, and objectives
    - b. Types of audit
      - 1. According to nature of assertion/data (financial statements audit, operational audit, compliance audit)
      - 2. According to types of auditor (external independent financial statements audit, internal audit, government audit)
- 2.0 The Professional Practice of Public Accounting
  - 2.1 Public accounting profession
    - a. Public accounting as a profession
    - b. Organizations that affect public accounting
      - 1. Regulatory government agencies (Professional Regulatory Board of Accountancy, Commission on Audit, Securities and Exchange Commission, Bangko Sentral ng Pilipinas, Insurance Commission, Bureau of Internal Revenue)
      - 2. Standard-setting bodies (Auditing and Assurance Standards Council, Financial Reporting Standards Council)
    - c. Regulation of the public accounting practice
      - 1. Philippine Accountancy Act of 2004 / Implementing Rules and Regulations
      - 2. SEC rulings on financial statement presentation
  - 2.2 The CPA's professional responsibilities
    - a. Philippine Standards on Auditing
    - b. Code of Ethics for Professional Accountants in the Philippines
    - c. Quality control
    - d. Responsibilities on fraud, error, and noncompliance
- 3.0 The Financial Statements Audit –Client Acceptance, Audit Planning, Supervision and Monitoring
  - 3.1 Overview of the audit process
  - 3.2 Pre-engagement procedures
  - 3.3 Scope and purposes of audit planning
    - a. Essential planning requirements
      - 1. Knowledge of the business
      - 2. Preliminary analytical procedures
      - 3. Materiality
      - 4. Assessing and managing audit risks
      - 5. Overall audit plan and audit program
      - 6. Considerations of the work of others (experts, internal auditor, other independent auditors)
  - 3.4 Direction, supervision and review

- 4.0 Understanding the Entity and its Environment Including its Internal Control and Assessing the Risks of Material Misstatement
  - 4.1 Industry, regulatory and other external factors, including the applicable financial reporting framework
    - a. Nature of the entity
    - b. Objectives and strategies and related business risks
    - c. Measurement and review of the entity's financial performance
  - 4.2 Internal control
    - a. Basic concepts and elements of internal control
    - b. Consideration of accounting and internal control systems
      - 1. Understanding and documentation
      - 2. Assessment of control risks
        - (a) Test of controls
        - (b) Documentation
  - 4.3 Assessing the risks of material misstatement
    - a. Fraud and errors
    - b. Risk assessment procedures
    - c. Discussion among the engagement team
    - d. Significant risks that require special audit consideration
    - e. Risks for which substantive procedures alone do not provide sufficient appropriate audit evidence
    - f. Revision of risk assessment
  - 4.4 Communicating with those charged with governance and management
- 5.0 Audit Objectives, Procedures, Evidences and Documentation
  - 5.1 Nature and significance
  - 5.2 Evidential matters
  - 5.3 Audit procedures / techniques
  - 5.4 Audit working papers
- 6.0 Audit Sampling
  - 6.1 Basic audit sampling concepts
    - a. Nature and purpose
    - b. Non-statistical and statistical sampling
    - c. Attribute and variables sampling technique
    - d. Sampling and nonsampling risk
    - e. Testing procedures which do not involve sampling
  - 6.2 Factors affecting sample design
    - a. Audit objectives
    - b. Population and its characteristics
    - c. Risk and assurance
    - d. Tolerable error
    - e. Expected error in the population
    - f. Variation in the population
  - 6.3 Factors affecting sample size
  - 6.4 Sample selection methods
  - 6.5 Evaluation of sample results
- 7.0 Completing the Audit / Post-Audit Responsibilities
  - 7.1 Completing the audit and audit report preparation
    - a. Analytical procedures for overall review
    - b. Related party transactions
    - c. Subsequent events review
    - d. Assessment of going concern assumption
    - e. Obtaining client's representation letter
    - f. Evaluating findings, formulating an opinion and drafting the audit report

- 7.2 Post-audit responsibilities
  - a. Subsequent discovery of facts
  - b. Subsequent discovery of omitted procedures
  
- 8.0 Reports on Audited Financial Statements
  - 8.1 The unqualified auditor's report
  - 8.2 Basic elements of the unqualified auditor's report
  - 8.3 Modified auditor's report
    - a. Matters that do not affect the auditor's opinion
    - b. Matters that do affect the auditor's opinion
  - 8.4 Report on comparatives
  
- 9.0 Auditing in a Computerized Information Systems (CIS) Environment
  - 9.1 Internal control in a CIS environment
    - a. Introduction
    - b. Impact of computers on accounting and internal control systems
      - 1. General controls
      - 2. Application controls
    - c. Unique characteristics of specific CIS
      - 1. Stand alone
      - 2. On-line
      - 3. Database system
  - 9.2 Basic approach to the audit of CIS environment
    - a. Introduction
    - b. Effects of computers on the audit process
    - c. Computer assisted audit techniques
  
- 10.0 Other Assurance and Nonassurance Services
  - 10.1 Procedures and reports on special purpose audit engagements
    - a. General considerations
    - b. Audit of financial statements prepared in accordance with a comprehensive basis of accounting other than GAAP in the Philippines
    - c. Audit of a component of financial statements
    - d. Reports on compliance with contractual agreements
    - e. Reports on summarized financial statements
  - 10.2 Nonaudit engagements: procedures and reports
    - a. Examination of prospective financial information
    - b. Engagements to review financial statements
  - 10.3 Nonassurance engagements
    - a. Engagements to perform agreed-upon procedures regarding financial information
    - b. Engagements to compile financial information