

PLANNING AND SUPERVISION

PRC STATEMENT OF AUDITING STANDARDS OF THE PHILIPPINES NO. 9, December 15, 1989

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Introduction

1. The first standard of field work prescribed under SASP No. 2 requires that "the work is to be adequately planned and assistants, if any, are to be properly supervised."
2. This Statement provides guidance to the auditor making an examination in accordance with the generally accepted auditing standards on the considerations and procedures applicable to planning and supervision, including preparing an audit program, obtaining knowledge of the entity's business, and dealing with differences of opinion among firm personnel. Planning and supervision continue throughout the examination, and the related procedures frequently overlap.
3. Adequate audit planning helps to ensure that appropriate attention is devoted to important areas of the audit, potential problems are promptly identified, and the work is completed expeditiously. Planning also assists in proper utilization of assistants and in coordination of work done by other auditors and experts.
4. The auditor with final responsibility for the examination may delegate portions of the planning and supervision of the examination to other firm personnel. For purposes of this Statement, (a) the term auditor refers to the auditor with final responsibility for the audit and (b) the term assistants refers to the personnel involved in an individual audit other than the auditor.

Planning

Knowledge of the Client's Business

5. The auditor should obtain a level of knowledge of the entity's business that will enable him to plan and perform his examination in accordance with generally accepted auditing standards. That level of knowledge should enable him to obtain an understanding of the events, transactions, and practices that, in this judgment, may have a significant effect on the financial statements. Knowledge of the entity's business helps the auditor in:
 - a. Identifying areas that may need special consideration.
 - b. Assessing conditions under which accounting data are produced, processed, reviewed, and accumulated within the organization.
 - c. Evaluating the reasonableness of estimates, such as valuation of inventories, depreciation, allowances for doubtful accounts, and percentage of completion of long-term contracts.
 - d. Evaluating the reasonableness of management representations.
 - e. Making judgments about the appropriateness of the accounting principles applied and the adequacy of disclosures.
6. The auditor should obtain a knowledge of matters that relate to the nature of the entity's business, its

organization, and its operating characteristics. Such matters include, for example, the type of business, types of products and services, capital structure, related parties, locations, and productions, distribution, and compensation methods. The auditor should also consider matters affecting the industry in which the entity operates, such as economic conditions, government regulations, and changes in technology, as they relate to his examination. Other matters, such as accounting practices common to the industry, competitive conditions, and if available, financial trends and ratios should also be considered by the auditor.

7. Knowledge of an entity's business is ordinarily obtained through experience with the entity of its industry and inquiry from personnel of the entity.

The auditor can obtain such knowledge from such sources as:

- a. The client's annual reports to shareholders, prospectuses, advertising literatures, interim financial reports.
- b. Minutes of meetings of stockholders, board of directors and important committees.
- c. Internal financial management reports for current and previous periods.
- d. The previous year's audit working papers and other relevant files.
- e. Firm personnel responsible for non-audit services to the client who may be able to provide information on matters that affect the audit.
- f. Discussions with client's management and staff;
- g. The client's policy and procedures manual.
- h. Trade journals or magazines.
- i. Consideration of the state of the economy and its effect on the client's business.
- j. Visits to the client's premises and plant facilities.

8. Discussions with the client's management and staff might include such subjects as:

- a. Changes in management, organizational structure, and activities of the client.
- b. Current government regulations affecting the client.
- c. Current business developments affecting the client.
- d. Current or impending financial difficulties or accounting problems.
- e. Explanations as to trends and major changes in results of operations and financial position, significant budget variances, key ratios, cash flows, etc.

Development of Overall Plan

9. Audit planning involves developing an overall strategy for the expected conduct and scope of the examination. The nature, extent, and timing of planning vary with the size and complexity of the entity, experience with the entity, and knowledge of the entity's business.

10. To improve the efficiency of the audit and to coordinate audit procedures with work of the client's personnel, the auditor may wish to discuss elements of his overall plan and certain audit procedures with the client's management. The overall audit plan and the audit program, however, remain the auditor's responsibility.

11. In planning the examination, the auditor should consider among other things:

- a. Matters relating to the entity's business and the industry in which it operates.
- b. The entity's accounting policies and procedures.
- c. The methods used by the entity to process significant accounting information.
- d. Anticipated reliance on internal accounting controls.
- e. Preliminary judgment about materiality levels for audit purposes.
- f. Financial statement items likely to require adjustment.
- g. Conditions that may require extension or modification of audit tests, such as the possibility of material errors or irregularities or the existence of related party transactions.
- h. The nature of reports expected to be rendered (for example, a report on consolidated or consolidating financial statements, reports on financial statements filed with the SEC or special reports such as those on compliance with contractual provisions).
- i. The identification of significant audit areas.
- j. Possible rotation of emphasis on specific audit areas.
- k. The involvement of other auditors and assistants in the audit of subsidiaries or branches of the client.

12. Procedures that an auditor may consider in planning the examination usually involve review of his records relating to the entity and discussion with other firm personnel and personnel of the entity. Examples of those procedures include:

- a. Reviewing correspondence files, prior years working papers, permanent files, financial statements, and auditor's reports.
- b. Discussing matters that may affect the examination with firm personnel responsible for non-audit services to the entity.
- c. Inquiring about current business developments affecting the entity.
- d. Reading the current year's interim financial statements, if any.
- e. Discussing the type, scope, and timing of the examination with management of the entity, the board of directors, or its audit committee.
- f. Considering the effects of applicable accounting and auditing pronouncements, particularly new ones.
- g. Coordinating the assistance of entity personnel in data preparation.
- h. Determining the extent of involvement, if any, of consultants, specialists, and internal auditors.
- i. Establishing the timing of the audit work.
- j. Establishing and coordinating staffing requirements.

The auditor may wish to prepare a memorandum setting forth the preliminary audit plan, particularly for large and complex entities.

Developing the Audit Program

13. In planning his examination, the auditor should consider the nature, extent, and timing of work to be performed and should prepare a written audit program (or a set of written audit programs). An audit program aids

in instructing assistants in the work to be done. It should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the examination. The form of the audit program and the extent of its detail will vary. In developing the program, the auditor should be guided by the results of his planning considerations and procedures. As the examination progresses, changed conditions or unexpected results of audit procedures applied may make it necessary to modify planned audit procedures.

14. In preparing the audit program, the auditor, having an understanding of the accounting system and related internal controls, may wish to rely on certain controls in determining the nature, timing, and extent of required auditing procedures. The auditor may conclude that relying on certain internal controls is an effective and efficient way to conduct his audit. However, the auditor may decide not to rely on internal controls when there are other more efficient ways of obtaining sufficient appropriate audit evidence. The auditor should also consider the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistance, and the involvement of other auditors or experts.

15. The auditor normally has flexibility in deciding when to perform audit procedures, as very few of them have to be carried out within specific time limits. For example, procedures carried out on transactions can be performed at any time after the transactions have been recorded. On the other hand, the auditor may have no discretion as to timing, for example, when observing the taking of inventories by client personnel.

16. Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the examination and determining whether those objectives were accomplished. Elements of supervision include the following activities:

- a. Coordinating staff assignments and ascertaining that the work is being performed by staff with appropriate capabilities.
- b. Assigning work to assistants.
- c. Reviewing all fieldwork to conclude that the engagement is satisfactorily completed.
- d. Conducting on the job training.
- e. Resolving significant accounting, auditing, and similar matters relative to the engagement, including necessary consultation thereon.

The extent of supervision appropriate in a given instance depends on many factors, including the complexity of the subject matter and the qualifications of persons performing the work.

17. Assistants should be informed of their responsibilities and the objectives of the procedures that they are to perform. They should be informed of matters that may affect the nature, extent and timing of procedures they are to perform, such as the nature of the entity's business as it relates to their assignments and possible accounting and auditing problems. The auditor should direct assistants to bring to his attention significant accounting and auditing questions raised during the examination so that he may assess their significance.

18. The work performed by each assistant should be reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report.

19. The auditor and assistants should be aware of the procedures to be followed when differences of opinion, concerning accounting and auditing issues exist among firm personnel involved in the examination. Such procedures should enable an assistant to document his disagreement with the conclusions reached if, after appropriate consultation, he believes it necessary to disassociate himself from the resolution of the matter. In this situation, the basis for the final resolution should also be documented.

Effectivity

This Statement shall be effective upon approval by the Board of Accountancy and the Professional Regulation Commission.

This statement was approved on December 15, 1989, by the members of the Auditing Standards and Practices Council.

Adopted: 15 Dec. 1989

(SGD.) LUIS C. DIAZ

Chairman

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