



Auditing Standards and Practices Council

Philippine Standard on Auditing 120

**FRAMEWORK OF PHILIPPINE STANDARDS ON
AUDITING**

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Philippine Standards on Auditing (PSAs) are to be applied in the audit of financial statements. PSAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

PSAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the PSA including explanatory and other material contained in the PSA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from a PSA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

PSAs need only be applied to material matters.

The PSAs issued by the Auditing Standards Practices Council (Council) are based on International Standards on Auditing (ISAs) issued by the International Auditing Practices Committee of the International Federation of Accountants.

The ISAs on which the PSAs are based are generally applicable to the public sector, including government business enterprises. However, the applicability of the equivalent PSAs on Philippine public sector entities has not been addressed by the Council. It is the understanding of the Council that this matter will be addressed by the Commission on Audit itself in due course. Accordingly, the Public Sector Perspective set out at the end of an ISA has not been adopted into the PSAs.

Framework of Philippine Standards on Auditing

Introduction

1. The Auditing Standards and Practices Council has been authorized to issue Philippine Standards on Auditing (PSAs). The purpose of this document is to describe the framework within which PSAs are issued in relation to the services which may be performed by auditors.
2. For ease of reference, except where indicated, the term “auditor” is used throughout the PSAs when describing both auditing and related services which may be performed. Such reference is not intended to imply that a person performing related services need be the auditor of the entity's financial statements.

Financial Reporting Framework

3. Financial statements are ordinarily prepared and presented annually and are directed toward the common information needs of a wide range of users. Many of those users rely on the financial statements as their major source of information because they do not have the power to obtain additional information to meet their specific information needs. Thus, financial statements need to be prepared in accordance with one, or a combination of:
 - (a) accounting standards generally accepted in the Philippines;
 - (b) International Accounting Standards; and
 - (c) another authoritative and comprehensive financial reporting framework which has been designed for use in financial reporting and is identified in the financial statements.

Framework for Auditing and Related Services

4. This Framework distinguishes audits from related services. Related services comprise reviews, agreed-upon procedures and compilations. As illustrated in the diagram below, audits and reviews are designed to enable the auditor to provide high and moderate levels of assurance respectively, such terms being used to indicate their comparative ranking. Engagements to undertake agreed-upon procedures and compilations are not intended to enable the auditor to express assurance.

	Auditing	Related Services		
Nature of service	Audit	Review	Agreed-upon Procedures	Compilation
Comparative level of assurance provided by the auditor	High, but not absolute, assurance	Moderate assurance	No assurance	No assurance
Report provided	Positive assurance on assertion(s)	Negative assurance on assertion(s)	Factual findings of procedures	Identification of information compiled

5. The Framework does not apply to other services provided by auditors such as taxation, consultancy, and financial and accounting advice.

Levels of Assurance

15. Assurance in the context of this Framework refers to the auditor's satisfaction as to the reliability of an assertion being made by one party for use by another party. To provide such assurance, the auditor assesses the evidence collected as a result of procedures conducted and expresses a conclusion. The degree of satisfaction achieved and, therefore, the level of assurance which may be provided is determined by the procedures performed and their results.
16. In an audit engagement, the auditor provides a high, but not absolute, level of assurance that the information subject to audit is free of material misstatement. This is expressed positively in the audit report as reasonable assurance.
17. In a review engagement, the auditor provides a moderate level of assurance that the information subject to review is free of material misstatement. This is expressed in the form of negative assurance.

18. For agreed-upon procedures, as the auditor simply provides a report of the factual findings, no assurance is expressed. Instead, users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work.
19. In a compilation engagement, although the users of the compiled information derive some benefit from the accountant's¹ involvement, no assurance is expressed in the report.

Audit

20. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework. The phrase used to express the auditor's opinion is "present fairly, in all material respects." A similar objective applies to the audit of financial or other information prepared in accordance with appropriate criteria.
21. In forming the audit opinion, the auditor obtains sufficient appropriate audit evidence to be able to draw conclusions on which to base that opinion.
22. The auditor's opinion enhances the credibility of financial statements by providing a high, but not absolute, level of assurance. Absolute assurance in auditing is not attainable as a result of such factors as the need for judgment, the use of testing, the inherent limitations of any accounting and internal control systems and the fact that most of the evidence available to the auditor is persuasive, rather than conclusive, in nature.

¹ To distinguish compilation engagements from audits and other related services the term "accountant" (rather than "auditor") has been used to refer to a professional accountant in public practice.

Related Services

Reviews

14. The objective of a review of financial statements is to enable an auditor² to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an identified financial reporting framework. A similar objective applies to the review of financial or other information prepared in accordance with appropriate criteria.
15. A review comprises inquiry and analytical procedures which are designed to review the reliability of an assertion that is the responsibility of one party for use by another party. While a review involves the application of audit skills and techniques and the gathering of evidence, it does not ordinarily involve an assessment of accounting and internal control systems, tests of records and of responses to inquiries by obtaining corroborating evidence through inspection, observation, confirmation and computation, which are procedures ordinarily performed during an audit.
16. Although the auditor attempts to become aware of all significant matters, the procedures of a review make the achievement of this objective less likely than in an audit engagement, thus the level of assurance provided in a review report is correspondingly less than that given in an audit report.

Agreed-upon Procedures

17. In an engagement to perform agreed-upon procedures, an auditor³ is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report must form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

² As explained in paragraph 2 the term auditor is used when describing both auditing and related services. Such reference is not intended to imply that a person performing related services need to be the auditor of the entity's financial statements.

³ See footnote 2.

Compilations

18. In a compilation engagement, the accountant⁴ is engaged to use accounting expertise as opposed to auditing expertise to collect, classify and summarize financial information. This ordinarily entails reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information. The procedures employed are not designed and do not enable the accountant to express any assurance on the financial information. However, users of the compiled financial information derive some benefit as a result of the accountant's involvement because the service has been performed with due professional skill and care.

Auditor Association with Financial Information

19. An auditor⁵ is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor's name in a professional connection. If the auditor is not associated in this manner, third parties can assume no responsibility of the auditor. If the auditor learns that an entity is inappropriately using the auditor's name in association with financial information, the auditor would require management to cease doing so and consider what further steps, if any, need to be taken, such as informing any known third party users of the information of the inappropriate use of the auditor's name in connection with the information. The auditor may also believe it necessary to take other action, for example, to seek legal advice.

Acknowledgment

20. This Framework of Philippine Standards on Auditing is based on ISA 120, *Framework of International Standards on Auditing*, issued by the International Auditing Practices Committee of the International Federation of Accountants.
21. This PSA differs from ISA 120 with respect to the deletion of the section on Public Sector Perspective included in ISA 120.

⁴ See footnote 1.

⁵ This includes an accountant engaged to perform compilation engagements.

This Philippine Standard on Auditing 120 was unanimously approved on October 29, 2001 by the members of the Auditing Standards and Practices Council:

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