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# Planning and Supervision of an Audit Engagement Under SAS No. 48

## New Guidelines Established for a Computer Specialist

By James H. Thompson, Gary L. Waters and C. Wayne Alderman

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The first standard of field work requires the work in an audit engagement to be adequately planned and assistants, if any, to be properly supervised. Statement on Auditing Standards No. 22 (SAS No. 22), *Planning and Supervision*, provides guidance for an independent auditor making an examination in accordance with generally accepted auditing standards (GAAS). Specific guidance is provided in the areas of audit program presentation, obtaining knowledge of the entity's business, and dealing with differences of opinion among audit firm personnel. The engagement must be adequately planned and supervised for the auditor to achieve the objectives of the examination. Without proper planning and supervision, the auditor could be confronted with a situation in which there is not an appropriate amount of sufficient competent evidential matter gathered to form the basis for an opinion.

In planning and supervising an audit engagement, an independent auditor may decide to obtain the services of a specialist. Statement on Auditing Standards No. 11 (SAS No. 11), *Using the Work of a Specialist*, is addressed to the auditor who has decided to use a specialist and plans to use the

specialist's findings as part of the sufficient competent evidential matter needed to support the audit opinion.

Statement on Auditing Standards No. 48 (SAS No. 48), *The Effects of Computer Processing on the Examination of Financial Statements*, however, points out that the provisions of SAS No. 11 are inapplicable to a computer specialist. SAS No. 11 applies to a specialist who is not a member of the audit team; SAS No. 48 applies to the specialist who is considered an auditor's assistant and is therefore a member of the audit team.

The purpose of this paper is to examine the impact that a computer specialist can have on the planning and supervision of an audit engagement. A brief discussion of the general requirements of SAS No. 22 and SAS No. 11 are presented, and the provisions of SAS No. 48 are summarized and analyzed.

### SAS No. 22

SAS No. 22 addresses the planning and supervision necessary to achieve the goals of an audit engagement, that is, to gather the appropriate amount of sufficient competent evidential matter to form the basis for an audit opinion. Detailed guidelines are enumerated in

SAS No. 22 for the auditor who is planning and supervising an audit engagement.

The planning phase of the audit engagement involves developing an overall strategy for the expected conduct and scope of the examination. SAS No. 22 states that the planning phase should include steps that allow the auditor to become familiar with the client's business, the industry in which the client operates, and the overall business reputation of the client. Detailed instructions are provided for obtaining this information. In addition, a written audit program is required, and the fact that the planning phase includes scheduling work, assigning personnel, and other administrative matters is emphasized.

SAS No. 22 states that supervision of an audit engagement involves directing the work of assistants and determining whether the objectives of that work were accomplished. Supervision would entail communicating the tasks to be completed and the objectives of the various tasks. Likewise, supervision involves reviewing the completed work of assistants, discussing the review with them, and evaluating their performance. SAS No. 22 emphasizes that supervision would also include dealing with differences of opinion among audit firm personnel.

### SAS No. 11

SAS No. 11 discusses the decision to use the work of a specialist, the process of selecting a specialist, and the effect of the specialist's work on the auditor's report. In deciding to obtain the services of a specialist, the auditor has ascertained that some special type of expertise is necessary to gather the sufficient competent evidential matter on which to base an opinion. SAS No. 11 discusses several

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The computer specialist is the only specialist who is considered a member of the audit team.

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## The computer specialist requires the same supervision and review as any assistant.

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situations in which the auditor might utilize a specialist.

In selecting a specialist, the auditor should consider the professional qualifications and professional reputation of the specialist. SAS No. 11 states that the auditor should preferably select a specialist who is unrelated to the client. Finally, the auditor is instructed to document the business agreement between the two parties, being careful to emphasize the nature of the work to be completed by the specialist.

If the auditor decides to rely on the work of the specialist and to accept responsibility, then the auditor would issue an unqualified opinion and not mention the work of the specialist. Alternatively, if as a result of the specialist's findings, the auditor cannot issue an unqualified opinion, then the auditor may mention the findings of the specialist in the report.

SAS No. 11 applies to specialists who are not considered members of audit teams. That is, these specialists are not considered assistants of the auditor who has responsibility for planning and supervising the audit engagement.

### SAS No. 48

SAS No. 48 amends the provisions in SAS No. 22 for planning and supervising an audit engagement for those audit engagements in which the client uses computer processing in preparing the financial statements.

**Planning.** The effect of computer processing on planning the audit engagement is described in SAS No. 48. The auditor is first instructed to consider the methods used by the client to process accounting information. If the client does use a computer to process accounting information, the

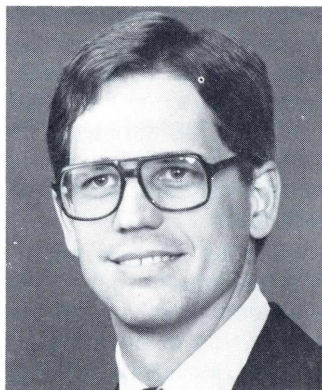
auditor is instructed to consider the following matters:

1. The extent to which the computer is used in each significant accounting application.
2. The complexity of the entity's computer operations, including the use of an outside service center.
3. The organizational structure of the computer processing activities.
4. The availability of data. Documents that are used to enter information into the computer for processing, certain computer files, and other evidential matter that may be required by the auditor may exist only for a short period or only in computer-readable form. In some systems, input documents may not exist at all because information is entered directly into the system. An entity's data retention policies may require the auditor to request retention of some information for his review or to perform audit procedures at a time when the information is available. In addition, certain information generated by the computer

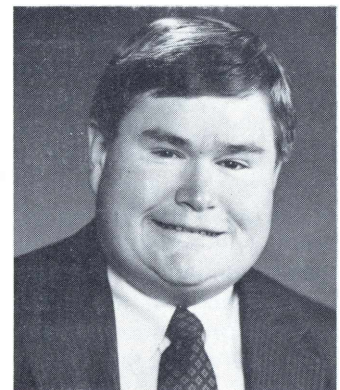
for management's internal purposes may be useful in performing substantive tests (particularly analytical review procedures).

5. The use of computer-assisted audit techniques to increase the efficiency of performing audit procedures. Using computer-assisted audit techniques may also provide the auditor with an opportunity to apply certain procedures to an entire population of accounts or transactions. In addition, in some accounting systems, it may be difficult or impossible for the auditor to analyze certain data or test specific control procedures without computer assistance.

**Supervision.** In the area of supervision, SAS No. 48 states that the auditor must decide if an individual with specialized computer skills is needed as a member of the audit team. This individual can be a member of the auditor's firm or an outside specialist. In either situation, SAS No. 48 concludes that the computer specialist is a member of the audit team. Therefore, the auditor is responsible for supervising and evaluating the computer specialist's work and ascertain-



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ing whether the specialist has achieved the assigned objectives. This increased responsibility generally indicates that a higher level of computer skills is required for the supervisory auditor. The computer specialist is the only specialist who is considered an assistant and thus a member of the audit team. The requirements of SAS No. 11 are not applicable to a computer specialist.

**Qualifications of the Audit Team.** The final implication of SAS No. 48 relates to qualifications of the members of the audit team. Generally accepted auditing standards require an individual to have "adequate technical training and proficiency as an auditor." Likewise Rule 201 of the AICPA Code of Professional Ethics requires that members shall not undertake any engagement that the members or their firm cannot reasonably expect to complete with professional competence. With the increasing amounts of computer processed information and the additional supervisory requirements of SAS No. 48, auditors are expected to be trained and professionally competent in the use of computers. The auditor should possess a basic understanding of computers,

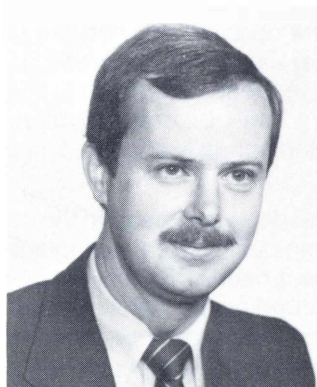
computer facility organization, computer data-processing methods, computer processing controls, and computer-assisted audit techniques. A task force of the AICPA has recommended the following knowledge about electronic data processing for a general audit staff member:

1. A basic knowledge of a computer system—its parts, functions, and capabilities.
2. The ability to design, analyze, and flowchart a system of modest complexity.
3. A general knowledge of a computer language sufficient to program a simple problem.
4. An understanding of the control procedures and needed modification of auditing methods to audit using a computer.<sup>1</sup>

SAS No. 48 implies that the auditor in a supervisory position needs a far more extensive knowledge of computer systems. This individual is responsible for assigning tasks to the computer specialist and evaluating the performance of the computer specialist. This increased supervisory responsibility will require more extensive computer skills for the auditor.

### Conclusion

SAS No. 48 gives a subtle hint to public accounting firms that there may be benefits to including a computer specialist on their audit staffs. The Statement points out that a computer audit specialist is considered a member of the audit team. As such, the specialist requires the same supervision and review as any assistant (SAS No. 22). Although these professionals are often referred to as "specialists," they are not specialists in the sense of SAS No. 11. Moreover, their designation as assistants is proper whether such professionals are members of the firm or outside specialists. In addition, SAS No. 48 implies the need for increased computer skills for all members of the audit staff of an accounting firm.<sup>Ω</sup>



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### NOTES

<sup>1</sup>Adapted from *Information for CPA Candidates* (New York: American Institute of Certified Public Accountants, 1975), p. 7.

**SAS No. 48 implies an increased need for computer skills by all members of the audit staff.**

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