

**INTERNATIONAL STANDARD ON AUDITING 300****PLANNING THE AUDIT****CONTENTS**

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

ISAs 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 ISA including explanatory and other material contained in the ISA, not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA 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.

ISAs need only be applied to material matters.

## Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the considerations and activities applicable to planning an audit of financial statements. ISA 220, *Quality Control for Audit Engagements* (ISA 220) establishes standards and provides guidance on directing and supervising engagement team members and reviewing their work. ISA XX, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” (ISA XX) establishes standards and provides guidance on obtaining an understanding of the entity and its environment, including its internal control, and on assessing the risks of material misstatement in a financial statement audit. This ISA provides guidance on how the auditor considers the requirements of ISA 220 and ISA XX in planning an audit.

## Planning the Audit

2. **The auditor should plan the audit so that the engagement will be performed in an effective manner.**
3. Planning an audit involves developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an audit plan, consisting of a detailed approach for the nature, timing and extent of audit procedures to be performed and the rationale for their selection. Adequate planning helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified on a timely basis and that the engagement is properly organized and managed in order to be performed in an effective and efficient manner. Adequate planning also assists in the proper assignment of work to engagement team members, facilitates the direction and supervision of engagement team members and the review of their work, and assists, where applicable, in coordination of work done by other auditors and experts. The nature and extent of planning activities will vary according to the size and complexity of the entity, the auditor’s previous experience with the entity, and the auditor’s understanding of the entity and its environment, including its internal control.
4. **The auditor should plan the audit with an attitude of professional skepticism.** At all times during the planning of the audit, the auditor maintains an attitude of professional skepticism, recognizing that circumstances may exist which causes the financial statements to be materially misstated. In exercising an attitude of professional skepticism, the auditor also recognizes that circumstances may arise that result in the need to change the overall strategy for the scope and conduct of the audit and the approach to planned audit procedures.
5. Planning the audit includes the following activities:
  - Considering certain matters prior to planning the audit (paragraphs 9-10).
  - Developing the overall audit strategy (paragraphs 11-16).
  - Developing the audit plan (paragraphs 17-20).
  - Considering changes to planning decisions during the course of the audit (paragraphs 21-22).
  - Considering the direction and supervision of engagement team members and the review of their work (paragraphs 23-25).
  - Documenting significant matters related to planning activities (paragraphs 26-29).

This ISA is framed in the context of recurring audits and is considered applicable to audits of entities of all sizes. In addition, matters the auditor may consider in initial audit engagements are included in paragraphs 30-31.

6. Obtaining an understanding of the entity and its environment, including its internal control, is an essential part of planning and performing an audit. In particular, that understanding provides a frame of reference within which the auditor exercises professional judgment in order to plan the audit to be responsive to the risks of material misstatement. That understanding also assists the auditor in the identification and assessment of risks of material misstatement of the financial statements, and therefore affects the auditor's overall audit strategy and audit plan.
7. Planning is not a discrete phase of an audit, but rather a continuous and iterative process that continues until the completion of the engagement. In planning an audit, the auditor considers the timing and sequence of certain planning activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, the auditor plans the discussion among audit team members<sup>1</sup>, the analytical procedures to be applied as risk assessment procedures, the obtaining of a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework and the performance of risk assessment procedures prior to performing detailed audit procedures at the assertion level for individual classes of transactions, account balances, and disclosures.
8. The auditor may discuss elements of planning (for example, the overall audit strategy or certain audit procedures) with the entity's management and those charged with governance. These discussions may be a part of the overall communications with management and those charged with governance or may be made to improve the effectiveness and efficiency of the audit (for example, to coordinate audit procedures with the work of the entity's personnel). The overall audit strategy and the audit plan, however, remain the auditor's responsibility. When discussions of the overall audit strategy or certain audit procedures with the entity occurs, care is required in order to not compromise the effectiveness of the audit, for example, by making the nature and timing of detailed audit procedures predictable to management.

#### MATTERS THE AUDITOR CONSIDERS PRIOR TO PLANNING THE AUDIT

9. The auditor considers the following matters prior to performing significant audit planning activities:
  - Client acceptance or retention<sup>2</sup> (see ISA 220, *Quality Control for Audit Engagements* for additional guidance).

<sup>1</sup> ISA XX paragraphs 18 through 22 provide guidance on the audit team's discussion of the susceptibility of the entity to material misstatements of the financial statements. ISA 240, "The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements" paragraphs 20 through 21 provide guidance on the emphasis given during this discussion to the susceptibility of the entity's financial statements to fraud.

<sup>2</sup> Client acceptance and retention activities include an evaluation of whether the firm has the necessary skills and competencies to properly conduct the audit engagement.

- Independence and conflicts of interest (see Section 8 of the *IFAC Code of Ethics for Professional Accountants* for additional guidance)<sup>3</sup>.
  - Establishing an understanding of the scope and terms of the engagement (see ISA 210, *Terms of Audit Engagements* for additional guidance).
10. The purpose of considering these matters prior to performing significant activities to plan an audit is to ensure that the auditor has considered any events or circumstances that may affect the auditor's ability to plan and perform the engagement in an effective manner. The auditor's consideration of these matters prior to performing significant activities to plan the audit also minimizes the risk that the auditor plans an engagement for which:
- The auditor does not maintain the necessary independence or ability to perform the engagement.
  - There are issues with management integrity that may affect the auditor's willingness to accept or continue the engagement.
  - There is a misunderstanding with the client as to the scope or terms of the engagement.
  - There is a misinterpretation as to the needs of the client.

#### THE OVERALL AUDIT STRATEGY

11. **The auditor should develop an overall audit strategy describing the scope and conduct of the audit in order to reduce audit risk to an acceptably low level.**
12. The auditor plans and performs an audit to reduce audit risk to an acceptably low level. The overall audit strategy sets the direction of the audit. The purpose of the overall audit strategy is to develop an effective response to the overall risk of material misstatement at the financial statement level and to sufficiently guide the development of the audit plan to respond to assessed risks of material misstatement at the assertion level for individual classes of transactions, account balances, and disclosures. The auditor considers the results of activities performed prior to planning (see paragraphs 9 and 10) and also uses the understanding of the entity and its environment, including its internal control, to develop an effective and efficient overall audit strategy that will appropriately respond to assessed risks and reduce audit risk to an acceptably low level.
13. The overall audit strategy includes consideration of planned audit responses at the overall financial statement level and at the assertion level (which may be accomplished through the development of the audit plan). The overall audit strategy includes specific consideration of any risks identified at the overall financial statement level and significant risks identified at the assertion level for classes of transactions, account balances, and disclosures. It also includes consideration of the nature, timing and extent of substantive procedures and whether the auditor intends to test the operating effectiveness of internal controls. The Appendix to this ISA lists examples of matters the auditor considers in planning the audit.
14. The precise form and content of the overall audit strategy will vary depending on the size and complexity of the entity and the assessed risks of material misstatement. The auditor may summarize the overall audit strategy in the form of an audit planning memorandum that contains the decisions regarding the overall scope emphasis and conduct of the audit,

<sup>3</sup> Although the auditor considers independence and conflicts of interest prior to performing significant audit planning activities, the auditor's consideration of independence and conflicts of interest is a continuous process through the completion of the engagement.

planned audit responses at the overall financial statement level, along with a summarization of significant matters documented in the audit plan at the assertion level for individual classes of transactions, account balances, and disclosures. The auditor exercises professional judgment in determining the form and content of the overall audit strategy with the objective being that the overall audit strategy is sufficient to understand the general approach to the scope and conduct of the audit and to communicate significant matters to the engagement team.

15. In audits of small entities, the entire audit may be conducted by a very small audit team. Many audits of small entities involve the audit engagement partner (or sole practitioner) working with one engagement team member (or without any engagement team members). With a smaller team, co-ordination and communication between team members is easier. Planning the audit of a small entity need not be a complex or time-consuming exercise; it varies according to the size of the entity and the complexity of the audit. For example, on some small audits, planning may be carried out at a meeting with the owner-manager of the entity or when the entity's records become available to the auditor for audit. Planning the audit can, however, start at the completion of the previous period's audit as the auditor will be well placed to plan for the next period. A brief file note prepared at this time, based on a review of the working papers and highlighting issues identified in the audit just completed can be particularly helpful. This file note, amended for changes arising during the subsequent period, could then be the initial basis for planning the next audit. Discussion with the owner-manager is a very important part of planning. Such discussions do not need a special meeting they can often take place as a part of other meetings, conversations or correspondence.
16. When the auditor assists in the preparation of the financial statements, sufficient flexibility is required in the overall audit strategy to take account of any areas of risk identified, and evidence obtained in performing those services. The auditor of a small entity therefore plans to take into consideration knowledge obtained from the accounting services so that the approach to obtaining audit evidence is properly co-ordinated and that efficiency of work and cost can be secured.

#### THE AUDIT PLAN

17. **The auditor should develop an audit plan in order to implement the overall audit strategy.**
18. The audit plan converts the overall audit strategy developed by the auditor into a comprehensive description of the work to be performed. The audit plan sets forth in detail the nature, timing and extent of the audit procedures the auditor plans to perform in order to obtain audit evidence that is sufficient and appropriate to achieve the related audit objective for each material class of transactions, account balance, and disclosure. The audit plan also provides a record that can be reviewed and approved prior to the performance of the work.
19. The audit plan may also include an audit program, which serves as a set of instructions to engagement team members and as a means to control and record the proper execution of the work. The audit program may also contain a time budget in which hours are budgeted for the various audit procedures. When standard audit programs are used, they are appropriately modified and tailored to the particular engagement circumstances. The Appendix to this ISA lists examples of matters the auditor considers when planning the audit.

20. The form and extent of detail of the audit plan is a matter of professional judgment and will vary depending on the size and complexity of the entity, materiality, the extent of other documentation, and the experience of engagement team members.

#### CHANGES TO PLANNING DECISIONS DURING THE COURSE OF THE AUDIT

21. **The overall audit strategy and the audit plan should be revised as necessary during the course of the audit.**
22. Planning an audit is continuous and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to revise the overall audit strategy and audit plan, and thereby the resulting planned nature, timing and extent of further audit procedures. Information may come to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures. For example, the auditor may obtain audit evidence through the performance of substantive procedures that contradicts the audit evidence obtained with respect to the testing of the operating effectiveness of controls. In such circumstances, the auditor reevaluates the planned audit procedures, based on the revised consideration of assessed risks for all or some of the classes of transactions, account balances or disclosures and related assertions.

#### DIRECTION, SUPERVISION AND REVIEW

23. In planning an audit, the auditor considers the timing and extent of direction and supervision of engagement team members and review of their work. The timing and extent of the direction and supervision of engagement team members and review of their work is a matter of professional judgment that varies depending on many factors, including the size and complexity of the entity, the area of audit, the risks of material misstatement, and the qualifications of personnel performing the audit work.
24. In developing the overall audit strategy, the auditor considers overall responses to the risk of material misstatement at the financial statement level. Such overall responses may affect the knowledge, skill, and ability of personnel assigned significant engagement responsibilities, and may also include the need to provide more direction and supervision of engagement team members and more detailed review of their work. In addition, in developing the audit plan, the auditor also plans the timing and extent of direction and supervision of engagement team members and review of their work based on the assessed risk of material misstatement. As the assessed risk of material misstatement increases, for the area of audit risk, the auditor ordinarily increases the extent and timeliness of direction and supervision of engagement team members and performs a more detailed review of their work.
25. In audits of small entities, an audit may be carried out entirely by the audit engagement partner (who may be a sole practitioner). In such situations, questions of direction and supervision of engagement team members and review of their work do not arise as the audit engagement partner, having personally conducted all significant aspects of the work, is aware of all material issues. The audit engagement partner (or sole practitioner) nevertheless needs to be satisfied that the audit has been conducted in accordance with ISAs. Developing or obtaining a suitably designed form of audit completion checklist may provide a useful tool for testing the completeness and adequacy of the process followed in an audit. Forming

an objective view on the appropriateness of the judgments made in the course of the audit can present practical problems when the same individual also performed the entire audit. When particularly complex or unusual issues are involved, and the audit is performed by a sole practitioner, it may be desirable to consult with other suitably-experienced auditors or the auditor's professional body, on a confidential basis.

#### DOCUMENTATION

26. **The auditor should document the overall audit strategy and the audit plan, including reasons for significant changes made to each during the audit engagement.**
27. The auditor's documentation of the overall audit strategy and audit plan is sufficient to demonstrate that the auditor made the key decisions considered necessary to properly plan the audit. The auditor's documentation of reasons for significant changes in the overall audit strategy and audit plan includes the auditor's response to the events, conditions, or results of audit procedures that resulted in such changes. Changes to the planned audit procedures are documented so that there is an accurate record of the nature, timing and extent of audit procedures performed. A record of the changes to the overall audit strategy may be necessary to explain the overall strategy finally adopted for the audit.
28. The manner in which these matters are documented is for the auditor to determine based on professional judgment. The extent of documentation depends on the size and complexity of the entity and the circumstances of the specific audit engagement. Ordinarily, the more complex the entity and the more extensive the audit planning activities performed by the auditor, the more extensive the auditor's documentation will be.
29. In audits of small entities, a practical approach need not involve excessive documentation. In the case of a small entity where, because of the size or complexity of the entity, the details of the overall audit strategy can be adequately documented in the audit plan, or vice versa, separate documentation of each may not be necessary.

#### Considerations in Initial Audit Engagements

30. The purpose and objective of planning the audit is the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For initial audits, matters the auditor may consider in developing the overall audit strategy and audit plan include:
  - Arrangements to be made with the predecessor auditor, for example to review the predecessor auditor's working papers or to inquire of predecessor auditors as to their knowledge of related parties.
  - Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditors, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
  - Obtaining an initial understanding of the entity and its environment, including its internal control, sufficient to assess risks of material misstatement in order to plan the audit (for example, obtaining an understanding of the accounting policies used by the entity).

- Determining the audit scope for entities with multilocations, including arranging the involvement of group or other auditors.
  - The planned audit procedures to obtain sufficient appropriate audit evidence regarding opening balances (see paragraph 2 of ISA 510, *Initial Audit Engagements*).
  - The assignment of firm personnel with more experience or knowledge, skill and ability to respond to audit risk.
  - The extent of direction, supervision and review necessary given the level of audit risk.
  - Other procedures required by the firm's system of quality control for initial audit engagements (for example, the firm's system of quality control may require the involvement of another partner or senior individual to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).
31. In addition, the matters the auditor considers prior to performing significant planning activities may be extended (for example, the auditor communicates with the predecessor auditor as part of the evaluation procedures performed for client acceptance).

**Effective Date**

32. This ISA is effective for audits of financial statements for periods beginning on or after XXXX.

## **Appendix: Examples of Matters the Auditor Considers in Planning the Audit**

This appendix provides examples of matters the auditor considers when developing the overall audit strategy and audit plan. The examples provided cover a broad range of matters applicable to many engagements; however, not all matters are relevant to every engagement and the list is not necessarily complete. In addition, the auditor may consider these matters in an order different from that shown below.

### ORGANIZING THE CONDUCT AND MANAGING THE AUDIT ENGAGEMENT

The auditor considers the following matters when organizing the conduct and managing the audit engagement:

- The expected scope of the audit work, including the number of locations to be included.
- The expected timing of the audit work, including the expected issuance date of the auditor's report and any other dates for reports to other auditors.
- The coordination of the expected scope and timing of the audit work with any reviews of interim financial information.
- The selection of the engagement team and the establishment and coordination of staffing requirements, including the expected scope and timing of communications among engagement team members.
- Any significant changes in the composition of the engagement team, including both changes from the previous audit and changes during the current audit.
- The assignment of an independent reviewer, where necessary.
- The discussion of matters that may affect the audit with firm personnel responsible for performing nonaudit services to the entity.
- Engagement budgeting.

### ORGANIZING THE NATURE AND TIMING OF EXPECTED COMMUNICATIONS WITH THE ENTITY

The auditor considers the following matters when organizing the nature and timing of expected communications with the entity:

- The organization of meetings with management and those charged with governance to discuss the nature, scope and timing of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement and the expected deliverables resulting from the audit procedures.
- Arranging meetings with those charged with governance to discuss audit matters.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

#### DETERMINING THE TIMING AND EXTENT OF INVOLVEMENT OF EXPERTS, CLIENT PERSONNEL AND OTHER THIRD PARTIES

The auditor considers the following matters in determining the timing and extent of involvement of experts, client personnel and other third parties, as applicable:

- Arranging the involvement of experts, both firm and external.
- Arranging the involvement of internal auditors.
- Arranging the involvement of group auditors in the audit of components of the entity.
- Arranging the involvement of other auditors in the audit of components of the entity.
- The availability of client personnel and data.
- Coordinating the assistance of client personnel in data preparation.
- The nature of the entity's use of service organizations.

#### CONSIDERING THE RELATIONSHIP OF THE PERFORMANCE OF RISK ASSESSMENT PROCEDURES TO PLANNING FURTHER AUDIT PROCEDURES

The auditor considers the relationship of risk assessment procedures with the planning of further audit procedures to ensure the auditor has a sufficient understanding of the entity to plan audit procedures at the assertion level for classes of transactions, account balances, and disclosures that are responsive to the risks of material misstatement. This may include consideration of the following matters:

- The timing of risk assessment procedures and how this affects planning the audit.
- The extent of understanding of the entity and its environment, including its internal control necessary to develop the audit plan for classes of transactions, account balances, and disclosures.
- The need to re-evaluate the overall audit strategy and audit plan in response to audit evidence obtained through the performance of risk assessment procedures.

#### MATERIALITY

The auditor considers the following matters related to materiality:

- Setting materiality for planning purposes.
- The qualitative factors for planning materiality for certain classes of transactions, account balances and disclosures.
- Setting and communicating materiality for group or other auditors.
- Reconsidering materiality as audit procedures are performed during the course of the audit.

#### THE NATURE, TIMING AND EXTENT OF AUDIT PROCEDURES

The auditor considers the following matters in planning the nature, timing and extent of audit procedures:

- Risk assessment procedures to obtain an understanding of the entity and its environment, including internal control<sup>4</sup>.
- Expected changes in internal control from the previous audit.
- Analytical procedures performed as risk assessment procedures in planning the audit.
- Audit procedures to assess and respond to the risk of fraud, including the scope and timing of the discussion among the engagement team.
- The assessment of the risk of material misstatement at the assertion level for classes of transactions, account balances, and disclosures.
- The possibility of material misstatement, including the experience in past periods of error or fraud.
- Whether noncompliance with laws and regulations could result in a material misstatement of the financial statements.
- Whether events or conditions cast significant doubt on the entity's ability to continue as a going concern.
- The audit procedures necessary to obtain sufficient appropriate evidence regarding opening balances for initial audits.
- The coordination of audit procedures with procedures performed during reviews of interim financial information.
- The effect of information obtained during the performance of reviews of interim financial information.
- The extent of use of audit evidence obtained in prior audits (for example, audit evidence related to risk assessment procedures and tests of controls).
- The relative emphasis to be placed on tests of controls and substantive procedures, including audit procedures planned prior to period end and possible changes of emphasis on specific audit areas.
- The relative emphasis to be placed on substantive analytical procedures and tests of details in performing substantive procedures.
- Audit procedures that need to be performed at or before the period end, taking into account the availability of audit evidence to be obtained and the effectiveness of performing such procedures at that date.
- Updating of planning and other audit procedures performed at an interim date.
- Audit procedures to respond to significant risks.
- Conditions requiring special attention, such as related parties.
- The effect of information technology on the audit procedures, including the expected use of computer-assisted audit techniques.
- The availability of data and entity personnel.
- The work of internal audit and its expected effect on external audit procedures.
- The use of service organizations.

<sup>4</sup> See also the above discussion of the relationship of risk assessment procedures to planning further audit procedures.

- The use of external confirmations.
- Inquiries of legal counsel.

#### DIRECTION, SUPERVISION AND REVIEW

The auditor considers matters required by the firm's system of quality control in planning the timing and extent of direction and supervision of engagement team members and review of their work. Such matters that the auditor considers may include the following:

- The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review.
- The composition of the audit engagement team necessary to accomplish the proper direction, supervision and review, including the need to involve experts.
- The assignment of audit work to engagement team members, including the assignment of responsibility for planning the audit.
- The manner in which the auditor communicates to engagement team members their responsibilities and the objectives of the audit procedures they are to perform.
- The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.
- Establishing and communicating to engagement team members the process by which they should bring significant audit and accounting issues to the auditor's attention and how those matters will be resolved.
- Establishing and communicating to engagement team members the process to ensure that appropriate consultations take place on difficult or contentious auditing or accounting matters.
- Establishing and communicating the process for resolving differences of opinion among engagement team personnel.
- Establishing and communicating the scope and timing of the review of audit work performed by engagement team members, including the need to review the overall audit strategy and audit plan prior to the performance of detailed audit procedures.
- Establishing and communicating the scope and timing of the review of audit work performed by group or other auditors.
- Establishing and communicating the scope and timing of the review by the independent reviewer, where necessary.
- The manner of documentation necessary to provide evidence that the audit work of engagement team members was adequately directed, supervised and reviewed and that any issues identified were resolved. This may involve the use of programs or checklists to facilitate direction, supervision and review activities and to ensure compliance with the firm's quality control policies and procedures.