

## **Revision of ISA 300, *Planning* – Issues Paper**

### **Introduction**

1. The revision to ISA 300, *Planning* (ISA 300) is being driven primarily by the changes resulting from the proposed Audit Risk Exposure Drafts. The Planning Task Force compared the existing ISA 300 with the Australian, UK, Canadian and US planning standards. It should be noted that this comparison included the existing US literature although a proposed revised planning standard is included in the US version of the Audit Risk Exposure Draft and was also considered. The results of this comparison were considered in developing and responding to the issues identified in this Agenda Item.

### **Issues Identified by the Task Force**

2. The following issues have been identified by the Planning Task Force for consideration by the IAASB.
  - Scope of the Revised ISA
    - *Planning vs. planning and supervision*
    - *Application to recurring audits only or to both initial and recurring audits*
    - *Description of planning activities*
  - Linkage and Overlap with Other ISAs
  - Documentation Requirements
  - Other Possible Revisions to ISA 300
  - Draft Outline of Revised Standard
  - Application to Small Audits

### **Scope of the Revised ISA**

#### *Planning vs. planning and supervision*

3. The comparison of planning guidance revealed differences among the scope of the planning standards. The existing ISA 300 and the Australian and UK guidance included only planning within the scope and title of the standard. The US and Canadian literature included planning and supervision within the scope and title.
4. It should be noted that existing ISA 220, *Quality Control for Audit Work* (ISA 220) and the latest draft of the revised ISA 220 has guidance on the direction and supervision of individual audit engagements along with a reference to the relevant guidance in ISA 300. The Planning Task Force believes that despite this guidance in ISA 220, the revised ISA 300 should include supervision within the scope. Therefore, the Planning Task Force recommends extending the scope of the revised Standard and changing the title to ISA 300, *Planning and Supervision*. The Planning Task Force will consider the relevant guidance on supervision from ISA 220 and the US and Canadian guidance in developing such guidance.

**Action Required by IAASB**

Does the IAASB support the suggested approach to increase the scope of the revised ISA to planning and supervision?

*Application to recurring audits only or to both initial and recurring audits*

5. The existing ISA 300 paragraph 1 states the following – “*This ISA is framed in the context of recurring audits. In a first audit, the auditor may need to extend the planning process beyond the matters discussed herein.*” Similar language is included in the Australian and UK guidance whereas there are no such references in the Canadian and US literature. Although there is not similar language in the Canadian and US literature, the Planning Task Force believes there are no substantive differences in the guidance, since the Canadian and US literature do not give any specific guidance for initial audit engagements.
6. The Planning Task Force believes that specific guidance on planning for initial audit engagements is beyond the scope of this project and unnecessary since the broad concepts are equally applicable to both initial and recurring audit engagements. Any guidance on initial audit engagements would seem more appropriately included in ISA 510, *Initial Engagements – Opening Balances* (ISA 510). ISA 510 includes guidance on the audit evidence necessary for opening balances, which seems to be the most important area where guidance for initial engagements is needed. As a result, the Planning Task Force proposes to retain the language in existing ISA 300 paragraph 1 and add no specific guidance on planning procedures for initial audits. The existing language appears sufficiently clear.

**Action Required by IAASB**

Does the IAASB support the suggested approach for the scope of the revised ISA to not include specific guidance on planning initial audits?

*Description of planning activities*

7. The review of the relevant planning standards indicated differences in the references to the types of planning activities. While all standards had references to “audit planning” there were differences among references to “audit plan”, “audit program” and “audit planning procedures”. A summary of the differences is as follows:

Standard	“Audit Plan”	“Audit Program”	“Audit Planning Procedures”
ISA	Included	Included	(3)
Australia	Included	Included	(3)
UK	Included	(1)	(3)
Canada	(4)	(4)	(3)
US	(2)	Included	Included

- (1) Refers to “audit program”, but there is no requirement to prepare audit programs.
- (2) There is not a separate section on developing an “audit plan” although the US standard (paragraph 4 therein) references preparing a memorandum to summarize the audit plan.

- (3) The US has a section on “audit planning procedures”, but this is not specifically mentioned in the other standards.
- (4) There is no reference to “audit plan” and no requirement to develop an “audit program”.
8. The Planning Task Force has come to the following tentative conclusions with respect to the planning activities for the revised ISA 300.
- Retain the reference to “audit plan” with more emphasis and discussion on formulating the overall audit strategy.
  - Retain the requirement to develop “audit programs”.
  - Do not include a specific section on “audit planning procedures”, since the general concepts will be incorporated in the discussion of matters to be considered in developing the “audit plan”. In addition, most of the “audit planning procedures” in the US literature are now audit procedures performed as risk assessment procedures.
9. A draft outline of the revised ISA is included as Appendix 1 to this Agenda Item. The draft outline incorporates the decisions above and also reflects the recommendations resulting from the discussion of other possible revisions to ISA 300 as noted below.

**Action Required by IAASB**

Does the IAASB support the suggested approach for the description of planning activities?

**Linkage and Overlap with Other ISAs**

10. The concept of planning is addressed in many other ISAs and IAPs. The existing ISA 300 paragraph 8 provides a listing of matters the auditor considers in developing the audit plan. Some of these matters relate to guidance that is now included in the Audit Risk Exposure Drafts while other matters relate to considerations for which there are individual ISAs. The Planning Task Force believes that the linkage of the revised planning Standard with the requirements of other ISAs is extremely important. In particular, the Planning Task Force believes that one of the most important objectives of planning is to consider the audit strategy which entails planning the nature, timing and extent of audit procedures relating to items such as the following:
- Establishing an understanding with the client as to the scope and terms of the engagement, including obtaining the engagement letter.
  - Consideration of quality control matters, including client acceptance and continuance and independence and conflicts of interest matters.
  - Risk assessment procedures to obtain an understanding of the entity and its internal control, including the required audit team discussion.
  - Fraud risk assessment procedures, including the required audit team discussion.
  - Understanding of risks related to applicable laws and regulations.
  - Assessing audit risk.
  - Establishing preliminary materiality for planning purposes.
  - Performing preliminary analytical procedures as part of the risk assessment procedures.
  - Coordinating with internal auditors.
  - Considering the involvement of experts, group auditors and other auditors.
  - Considering the timing and extent of use of external confirmations.
  - Considering the extent of the entity’s use of service organizations.

11. The Planning Task Force believes that although it is important that there is a proper link between the planning Standard and the requirements of other ISAs, it is also important to balance the need for this link with the potential for overlapping or repetition with other ISAs. As a result, the Planning Task Force has concluded that while certain of these matters are appropriate for inclusion in the body of the revised Standard (see outline below), the exhaustive list would be best suited for inclusion as an appendix to the Standard. The appendix would serve as a repository for matters the auditor may consider in developing the overall audit plan and a link to other ISAs. This appendix would include the items above and other items that are considered appropriate from the review of the planning standards mentioned above. To the extent the Planning Task Force concludes it is necessary to include items in the body of the Standard, appropriate discussion will be included.

**Action Required by IAASB**

Does the IAASB support the suggested approach for inclusion of matters to be considered in developing the overall audit plan as an appendix to the Standard?

**Documentation Requirements**

12. The existing ISA 300 does not have a separate section on documentation requirements, however, it appears important for the audit work papers to include documentation that the audit was properly planned and the work of engagement team members was adequately supervised. The other planning standards reviewed also do not have separate sections on documentation requirements, although each standard generally has some references to documentation dispersed throughout the document.
13. The Planning Task Force believes it is important to have a separate section on documentation in order to summarize the documentation requirements in a single location. This is similar to the approach taken in the Audit Risk Exposure Drafts. In developing this separate section, the Planning Task Force will consider whether additional and more robust documentation requirements for planning activities are necessary. To the extent these requirements are included in the black letter requirements, the documentation guidance could be in the form of gray letter guidance.

**Action Required by IAASB**

Does the IAASB support a separate section on required planning documentation?

**Other Possible Revisions to ISA 300**

14. Based upon the review of the existing planning standards, the planning guidance from the audit methodologies of selected international accounting firms, and the proposed revision to the US planning standard, the Planning Task Force came up with the following list of additional guidance to be considered for inclusion in the revision to ISA 300 along with the Task Force's recommendation as whether or not to include in the revised standard.

<i>Possible additional guidance to be included</i>	<i>Does the Task Force propose the revision?</i>
Quality control considerations (i.e., acceptance and continuance) when planning the audit.	✓ Include discussion that client acceptance and continuance should be completed prior to commencing significant audit fieldwork. Also, ensure appropriate linking to the quality control standard for individual audits.
Establishing an understanding as to the scope and terms of the engagement, including documentation in the form of an engagement letter.	✓ This guidance seems appropriate and necessary in the revised planning Standard to link to ISA 210, <i>Terms of Audit Engagement</i> .
Statement that audit planning occurs before performance of the detailed audit work. [Note: The UK standard includes such guidance]	✗ The Task Force believes this is unnecessary since planning is a continuous process and also since current audit methodologies and the Audit Risk EDs attempt to not put the audit process into discrete phases. A statement to this effect may be more appropriate.
Assessment of overall audit risk.	✓ There should be some discussion of overall audit risk as it relates to the engagement as part of planning.
Independence and conflicts of interest considerations when planning the audit.	✓ The Task Force believes that given the importance of independence in today's audit environment, inclusion in the body of the standard based on the guidance in the IFAC Code of Ethics is appropriate. This may also be included in the appendix to the Standard.
The responsibilities of the auditor when there is a disagreement between firm personnel. [Note: The US standard includes such guidance]	✗ The Task Force believes any guidance on disagreements between firm personnel is more appropriately included in the quality control Standard.
Definition of the "auditor with final responsibility" and firm "assistants." [Note: The US and Canadian standards include such guidance]	✗ The Task Force believes such guidance is unnecessary since the glossary of terms already defines these terms.
Considerations when there are changes in firm personnel.	✓ The Task Force believes guidance is necessary relating to situations where significant members of the engagement team change. For example, if the engagement team has significantly changed prior to the beginning of the current audit, the auditor should be aware of responsibilities to respond to the changes. This could include additional supervision and review by the auditor with final responsibility. The Task Force will consider similar guidance for changes that occur during the engagement.
The availability of information and personnel when planning the nature, timing and extent of audit procedures.	✓ The Audit Risk EDs include guidance on the availability of information; however, it appears that the planning Standard should address availability of personnel and information, either in the body or the appendix.
Planning considerations when the auditor performs interim reviews.	✗ The basic principles and procedures should be similar whether or not the auditor performs interim reviews. Any guidance would be more appropriate in the proposed ISA on review of interim information. However, a reference in the appendix to considering the results of any procedures performed in an interim review would be appropriate.
Updating planning and other audit procedures performed at an interim date.	✓ The Task Force believes it is appropriate to include guidance on considerations when the audit planning is performed prior to period end; however, guidance when other audit procedures are performed at an interim period is included in the ED, <i>Auditor's Procedures in Response to Assessed Risks</i> .
The scope and timing of audit procedures including consideration of changing audit procedures from the prior year.	✗ Specific guidance is unnecessary since this is included in the Audit Risk EDs; however, to the extent such discussion fits into the appendix of matters to consider, the Task Force will consider its inclusion.
Expected audit procedures and related	✓ The Task Force believes the inclusion of such guidance

<i>Possible additional guidance to be included</i>	<i>Does the Task Force propose the revision?</i>
considerations for items such as the involvement of experts, use of service organizations, effect of information technology and application of computer-assisted audit techniques, etc.	is appropriate for the body of the Standard and also the examples in the proposed appendix.
Requirement for preparation of an audit planning memorandum to summarize the overall audit plan.	✓ Requiring an audit planning memorandum would be a fundamental change to existing guidance; however, since such planning memorandums are prevalent in current audit methodologies, introducing the concept is appropriate.
Selecting the engagement team and developing an internal communication plan.	✓ Such guidance seems appropriate and will be considered, in a section on organizing the engagement and also considered for inclusion in the proposed appendix.
Communications between the auditor and non-audit firm personnel performing non-audit services. [Note: The US standard includes such guidance]	✗ This seems to be more applicable to the guidance on the audit team discussion in the Audit Risk EDs as opposed to the planning Standard. It is also implicit in the discussion of independence. However, to the extent that references to such can be included in the body or appendix without interruption, this will be considered.
More guidance on the scope and timing of internal and external meetings, including meetings with management to plan the audit and internal planning meetings.	✓ Such guidance seems appropriate and will be considered, possibly included in the appendix.
Programs and audit engagement management tools, such as the use of client participation schedules and budgeting techniques.	✓ Such guidance seems appropriate and will be considered, possibly included in the appendix.
Consideration of reporting deadlines and issuance requirements, audit signoffs and the scope and timing of expected communications with client.	✓ Such guidance seems appropriate and will be considered, possibly included in the appendix.

### Action Required by IAASB

Does the IAASB support the recommendations proposed by the Planning Task Force above? Are there other revisions that should be considered?

### Draft Outline of Revised Standard

15. A draft outline of the revised Standard is included as Appendix 1.

### Application to Small Audits

16. The Task Force intends to ensure that the revised Standard is practicable for application to the audits of all entities. The guidance will emphasize that the nature, timing and extent of planning activities will vary depending on the circumstances of the engagement, including the size and complexity of the audit. The Task Force believes it is unnecessary to include within the revised ISA a separate section on the applicability of audits of small entities, as the key principles (to be set out in bold text) will be the same for audits of all sizes. However, the Task Force believes that it is appropriate to include examples in the gray text on the application of the guidance to small entities.

**Action Required by IAASB**

Does the IAASB agree that the key principles should be applicable to audits of entities of all sizes? Is it acceptable to address the specific considerations for audits of small entities by way of examples in the gray text?

**Draft Outline of Revised Standard (ISA 300, *Planning and Supervision*)****I. Introduction of Planning the Audit**

- A. Statement of purpose of the ISA.
- B. Black letter #1 – Overarching requirement that the auditor must plan the audit to be performed in an effective manner and properly supervise and review the work of engagement team members.
- C. Definition and objective of audit planning and supervision including relating it to developing an audit strategy.
- D. Statement that planning and supervision is a continuous process throughout the audit and that obtaining a sufficient understanding of the entity and its environment is an essential part of planning.
- E. Overview of planning and supervision activities:
  - (i) Activities the auditor considers prior to developing the overall audit plan.
  - (ii) Developing the overall audit plan.
  - (iii) Developing audit programs.
  - (iv) Changes to the overall audit plan and audit program.
  - (v) Supervision and review.
  - (vi) Documentation requirements.
- F. Circumstances that impact the nature, timing and extent of planning and supervision activities, including an example of application to small entities.

**II. Activities the Auditor Considers Prior to Developing the Overall Audit Plan**

- A. Appointment of the auditor and client acceptance<sup>1</sup> or continuance procedures.
- B. Consideration of independence and conflicts of interest matters.
- C. Determining the scope of the audit, including establishing an understanding with the client of the scope and terms of the audit engagement, and having communications with the client (e.g., audit committee, management, etc.).

**III. The Overall Audit Plan**

- A. Black letter #2 – The requirement of the auditor to develop an audit plan sufficient to plan the scope of audit procedures in order to reduce audit risk to an acceptably low level.
- B. Objective of the overall audit plan.
- C. Explanatory guidance on the form and content of the audit plan, including relating the requirements to small audits.
- D. Explanatory guidance on matters the auditor considers in formulating the overall audit plan including:
  - (i) Organizing the engagement, including the formulation of the engagement team, communications among members of the engagement team,

<sup>1</sup> Client acceptance procedures implicitly include consideration of whether the auditor has the requisite skills and resources to accept the engagement.



coordination with group and other auditors, coordinating client assistance, considering the availability of personnel and data, and considerations when there are changes to the engagement team.

- (ii) Relating the importance of risk assessment procedures to the overall audit plan.
  - (iii) Determining the extent and involvement of professionals with specialized skills, client personnel and third parties (e.g., experts, internal auditors and service organizations).
  - (iv) Reference to an appendix of examples of matters the auditor considers in developing the overall audit plan. Serves as a repository of items to consider and a link to other ISAs.
- E. A statement that the preparation of an audit planning memorandum may serve as a means to summarize the audit plan.

#### **IV. The Audit Program**

- A. Black letter #3 – The requirement of the auditor to develop audit program(s).
- B. Objective of audit programs.
- C. Explanatory guidance on developing audit programs, including relating the guidance to small audits.

#### **V. Changes to the Overall Audit Plan and Audit Program**

- A. Statement that changes to the overall audit plan and audit programs are inherent due to the continuous nature of planning.
- B. Explanatory guidance on the auditor's consideration of changes in the overall audit plan and audit program during the course of the audit.
- C. Specific guidance when the auditor completes the overall audit plan and audit programs at an interim date.

#### **VI. Supervision and Review**

- A. Black letter #4 – The requirement for the auditor with final responsibility to ensure the proper assignment of work to engagement team members and to ensure engagement team members are supervised and audit work is reviewed by individual other than the preparer.
- B. Explanatory guidance on supervision and review activities, including relating the requirements to small audits.

#### **VII. Documentation Requirements**

- A. Black letter #5 – The requirement for the auditor to prepare documentation sufficient to ensure the engagement has been properly planned including documentation of: the overall audit plan, audit programs, changes to the overall audit plan and audit program, and the supervision and review of work performed by engagement team members.
- B. Explanatory guidance on documentation, including applicability to small audits.

#### **VIII. Appendix 1 – Example of Matters the Auditor Considers in Developing the Overall Audit Plan**

[Blank page]