

Revision of ISA 300, *Planning* – Issues Paper

Introduction

1. The revision to ISA 300, *Planning* (ISA 300) is being driven by changes needed to align with the proposed new audit risk standards and to reflect current audit methodologies. In drafting the revised ISA 300 the Planning Task Force has carefully considered the planning guidance of various national standard setters and comments received from the IAASB on the March 2003 agenda papers. A summary of the decisions reached to date by the Task Force that have been previously discussed with the IAASB and additional specific issues to consider are both discussed below.

Decisions Reached To Date (Based on March 2003 IAASB Meeting)

2. The Planning Task Force presented an issues paper at the March 2003 IAASB meeting and based on the discussions at that meeting, the Planning Task Force proceeded with the drafting of revised ISA 300 based on the following decisions as agreed upon by the IAASB:
 - a. **Scope to Include Supervision** – The revised ISA 300 should include discussion of supervision to the extent it relates to planning the audit, but the discussion should not overlap with the guidance in the quality control exposure drafts. In addition, it is not necessary for the title to include “supervision” although this can be reconsidered at a later date.
 - b. **Scope to Include Discussion of Specific Considerations in Initial Audits** – The existing ISA 300 is structured in the context of only recurring audits with no separate discussion of considerations during initial audits. Although the objective of planning an audit does not change for a first time audit, there are specific additional considerations apart from recurring audits. Therefore, discussion of the specific considerations in initial audits should be included in the revised ISA 300.
 - c. **Description of Planning Activities** – The concepts of “overall audit plan” and “audit program” as in existing ISA 300 should be retained and the concept of “audit planning procedures”, which is used in certain national standards, should not be introduced. See below, however, for Task Force recommendation relating to changing “overall audit plan.”
 - d. **Linkage with Other ISAs** – The revised ISA 300 should be appropriately linked to other ISAs, in particular the Audit Risk EDs, but should avoid unnecessary repetition. In order to discuss the important matters to be considered when planning an audit without excessive repetition in the body of the ISA, it is appropriate to have an appendix that lists matters to be considered in planning the audit. To the extent matters listed in the appendix are considered important enough to be emphasized, they would also be included in the body of the ISA.
 - e. **Documentation** – The revised ISA 300 should have a separate section summarizing in one location the documentation requirements related to planning the audit.

- f. **Application to Small Audits** – To the extent necessary, the revised ISA 300 should include guidance on applying the standard to small audits. Existing guidance in IAPS 1005 should be considered in this respect.

Specific Issues for IAASB to Consider

3. In addition to requesting general comments on the first draft of the revised ISA 300, the Planning Task Force requests specific consideration be given to the following two issues:
 - a. **Matters the Auditor Considers Prior to Performing Detailed Planning Activities**
 - b. **The Planning Process**

MATTERS THE AUDITOR CONSIDERS PRIOR TO PERFORMING DETAILED PLANNING ACTIVITIES

4. The first draft revised ISA 300 has a section on matters the auditor considers prior to performing significant planning activities. These matters include the following:
 - Client acceptance and retention
 - Independence and conflicts of interest
 - Establishing terms of the engagement
5. The purpose of performing these activities prior to planning the audit, as discussed in detail in the draft revised ISA 300, is to ensure that the auditor considers matters that may preclude the auditor's ability to accept the engagement, and to avoid risks to the auditor, such as a misunderstanding as to the terms of the engagement.
6. The Task Force believes these matters should always be considered prior to performing a significant amount of audit work, although, it is possible that the information gained from these procedures could provide audit evidence related to understanding the entity and could contribute to planning the audit. In addition, the Task Force recognizes that in certain jurisdictions, it may not be possible to establish the terms of engagement and receive the engagement letter prior to performing a certain amount of planning in order to present an audit plan to those responsible for approving the appointment of the auditors. For this reason, this guidance has not been structured as a bold letter requirement.

Action Required by IAASB

Does the IAASB agree that these matters should be included in the revised ISA 300 as matters to consider prior to planning the audit and performing audit work? If so, are there additional matters to be considered? Should there be a black letter requiring these activities be completed as opposed to merely considering them?

THE PLANNING PROCESS

7. ISA 300 currently requires the auditor to develop the “overall audit plan” and “audit program”. The “overall audit plan” is described as comprising “the expected scope and conduct of the audit” and the “audit program” is described as “setting out the nature, timing and extent of planned procedures required to implement the overall audit plan...and serving

as a set of instructions to assistants involved in the audit and as a means to control proper execution of the work.”

8. One of the key challenges in revising ISA 300 is relating audit planning to understanding the entity and its environment and assessing the risks of material misstatement (i.e., risk assessment procedures). In this regard, the Task Force believes that audit planning is essentially two-fold. One, audit planning relates to developing an overall strategy to the audit (the current “overall audit plan”) and, two, audit planning relates to planning each audit procedure, including risk assessment procedures, prior to the detailed performance of the procedure (which is facilitated by use of the audit program). Consequently:
- The “overall audit plan” has been renamed “overall audit strategy” to better reflect the objective and purpose.
 - The “audit program” has been redefined to encompass use for other than testing accounts (i.e., for risk assessment procedures and disclosures, among other items) and has been renamed “audit plan”.

Action Required by IAASB

Does the IAASB support the recommendations proposed by the Planning Task Force above?

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