

INTERNATIONAL STANDARD ON AUDITING 300
PLANNING AN AUDIT OF FINANCIAL STATEMENTS
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Appendix: Examples of Matters the Auditor May Consider in Developing the Overall Audit Strategy	

Please note that paragraph numbers have not been changed in order to facilitate a better link with the mark-up of the document.

International Standards on Auditing (ISAs) are to be applied, as appropriate, in the audit or review of historical financial information.

ISAs contain basic principles and essential procedures (identified in bold lettering) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of an ISA to understand and apply the basic principles and essential procedures.

The nature of ISAs requires auditors to exercise professional judgment in applying them. In exceptional circumstances, an auditor may judge it necessary to depart from a basic principle or essential procedure of an ISA to achieve more effectively the objective of the audit. When such a situation arises, the auditor should be prepared to justify the departure.

Any limitation of the applicability of a specific ISA is made clear in the ISA.

In circumstances where specific basic principles, essential procedures or guidance contained in an ISA are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, the Public Sector Committee of the International Federation of Accountants so states in a Public Sector Perspective (PSP) at the end of the ISA. When no PSP is Added, the ISA is to be applied as written to engagements in the public sector.

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” establishes standards and provides guidance on quality control procedures for audit engagements. ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement” 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. ISA 330, “The Auditor’s Procedures in Response to Assessed Risks” establishes standards and provides guidance on determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement in a financial statement audit. This ISA provides guidance on how the auditor considers the requirements of these and other ISAs in planning an audit. This ISA is framed in the context of recurring audits and is considered applicable to audits of entities of all sizes. However, matters the auditor may consider in initial audit engagements are included in paragraph 27.
2. **The auditor should plan the audit to reduce audit risk to an acceptably low level that is consistent with the objective of an audit.**
3. Planning an audit involves developing an overall audit strategy for the scope, timing and conduct of the audit engagement, and an audit plan, consisting of a detailed plan of the nature, timing and extent of audit procedures to be performed in order to reduce audit risk to an acceptably low level. Adequate planning helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and resolved on a timely basis and that the audit engagement is properly organized and managed in order to be performed in an effective and efficient manner. Adequate planning also assists in the proper selection and 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 changes in circumstances that occur during the audit engagement.
4. **The auditor should plan the audit with an attitude of professional skepticism.** At all times during the planning and performance of the audit, the auditor maintains an attitude of professional skepticism, recognizing that circumstances may exist that cause 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 audit strategy for the scope, timing and conduct of the audit and the detailed plan of the nature, timing, and extent of audit procedures to be performed. Paragraph 6 of ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” provides additional guidance on exercising professional scepticism in an audit.
6. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. However, in planning an audit, the auditor considers the timing 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 engagement team members,¹ 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 other risk assessment procedures prior to performing further audit procedures at the assertion level for classes of transactions, account balances, and disclosures. As audit procedures are performed, the auditor considers how the conclusions drawn affect the risk assessments and resulting nature, timing and extent of further planned audit procedures.

Preliminary Engagement Activities

8. The auditor should perform the following activities at the beginning of the current audit engagement:

- **Procedures regarding the acceptance and continuance of clients and the specific audit engagement** (see paragraphs 19–22 of ISA 220 for additional guidance).
- **Evaluate ethical requirements, including independence, and, for initial audits, communicate with previous auditors** (see the IFAC “Code of Ethics for Professional Accountants” and paragraphs 8–18 of ISA 220 for additional guidance).
- **Establish an understanding of the scope and terms of the engagement** (see ISA 210, “Terms of Audit Engagements” for additional guidance).

The auditor’s consideration of client continuance and ethical requirements, including independence, occurs throughout the performance of the audit engagement as conditions and changes in circumstances occur. However, the auditor’s initial procedures and conclusions on client continuance and initial process to evaluate ethical requirements, including independence, is performed prior to performing significant audit planning activities for the current audit engagement. For continuing audit engagements, this often occurs shortly after (or in connection with) the completion of the previous audit.

9. The purpose of performing these preliminary engagement activities at the beginning of the current audit engagement is to ensure that the auditor has considered any events or circumstances that may adversely affect the auditor’s ability to plan and perform the audit engagement to reduce audit risk to an acceptably low level. Performing these preliminary engagement activities minimizes the risk that the auditor plans an audit 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.

¹ ISA 315 paragraphs 14–19 provide guidance on the engagement 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 in an Audit of Financial Statements” paragraphs 24–27 provide guidance on the emphasis given during this discussion to the susceptibility of the entity’s financial statements to material misstatement due to fraud.

- There is a misunderstanding with the client as to the scope or terms of the engagement.

Planning Activities

The Overall Audit Strategy

10. **The auditor should develop an overall audit strategy describing the scope, timing and conduct of the audit in order to reduce audit risk to an acceptably low level.**
11. 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 identify and respond to the assessed risks of material misstatement at the assertion level. The auditor considers the results of preliminary engagement activities (see paragraphs 8 and 9) and previous knowledge of the entity to develop an effective and efficient overall audit strategy in order to reduce audit risk to an acceptably low level.
12. The overall audit strategy includes specific consideration of planned audit responses to risks identified at the overall financial statement level. The overall audit strategy also includes consideration of:
 - The approach to organizing the conduct and management of the audit engagement (for example, staffing requirements and locations to be included in the audit scope).
 - The approach to organizing the nature and timing of expected communications with the entity.
 - The timing and extent of involvement of experts, client personnel and other third parties.
 - Materiality.
 - Direction, supervision and review.

The Appendix to this ISA lists examples of matters the auditor may consider in developing the overall audit strategy.

14. 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 (who may be a 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. Developing the overall audit strategy for 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, a brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated and changed in the current period based on discussions with the owner-manager can serve as the basis for planning the current audit engagement.

The Audit Plan

15. **The auditor should develop an audit plan in order to implement the overall audit strategy.**
16. The audit plan converts the overall audit strategy into a detailed plan of the nature, timing and extent of audit procedures to be performed by engagement team members in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. The audit plan also serves as a record of the proper planning and performance of the audit procedures that can be reviewed and approved prior to the performance of further audit procedures.
17. The audit plan includes the details of the nature, timing and extent of planned risk assessment procedures sufficient to assess the risks of material misstatement. The auditor uses the audit evidence obtained from the performance of planned risk assessment procedures to further develop the audit plan into a comprehensive description (or program) of the planned nature, timing and extent of further audit procedures at the assertion level for each material class of transactions, account balance, and disclosure. The plan for further audit procedures includes whether the auditor intends (or is required) to test the operating effectiveness of controls and the nature, timing and extent of planned substantive procedures.
- 17a. The auditor considers the results of the risk assessment procedures when planning further audit procedures at the assertion level for each material class of transactions, account balance, and disclosure. Such matters the auditor may consider include the following:
- 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.
 - The extent of understanding of the entity and its environment, including its internal control necessary to develop the audit plan at the assertion level for each material class of transactions, account balance, and disclosure.
 - The timing of the risk assessment procedures.

As the auditor performs audit procedures outlined in the audit plan, the planned risk assessment procedures and further audit procedures at the assertion level are updated and changed to reflect the additional audit procedures considered necessary given the circumstances. This includes consideration of further audit procedures when tests of controls or substantive procedures are performed at an interim date.

Changes to Planning Decisions During the Course of the Audit

19. **The overall audit strategy and the audit plan should be updated and changed as necessary during the course of the audit.**
20. Planning an audit is continual and iterative process throughout the audit 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 modify 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 re-evaluates the planned audit procedures, based on the revised consideration of assessed risks at the assertion level for all or some of the classes of transactions, account balances or disclosures.

Direction, Supervision and Review

21. **In planning the audit, the auditor should consider 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. ISA 220 paragraphs 25–32 contain detailed guidance on the direction, supervision and review of audit work.
22. 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 relate to the knowledge, skill, and ability of personnel assigned significant engagement responsibilities, including the need to involve more experienced staff or using experts. In addition, in developing the audit plan, the auditor 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 and the competency and experience of the individual engagement team members performing the audit work. 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.
23. 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 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. 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.

Documentation

24. **The auditor should document the overall audit strategy and the audit plan, including any significant changes made to the planned audit scope during the audit engagement.**
25. The auditor's documentation of the overall audit strategy is sufficient to demonstrate that the auditor made the key decisions considered necessary to properly plan the audit and to communicate significant matters to the engagement team. For example, the auditor may summarize the overall audit strategy in the form of a memorandum that contains key

decisions regarding the overall scope, timing and conduct of the audit, including planned audit responses to risks at the overall financial statement level.

- 25a. The auditor's documentation of the audit plan is sufficient to demonstrate the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level for each material class of transaction, account balance, and disclosure in response to the assessed risks. The auditor may document the audit plan by using standard audit programs or audit completion checklists. However, when such standard programs or checklists are used, the auditor appropriately tailors them to reflect the particular engagement circumstances.
- 25b. The auditor's documentation of any significant changes to the originally planned audit scope includes the reason for the significant change in audit scope and the auditor's response to the events, conditions, or results of audit procedures that resulted in such changes. For example, the auditor may significantly change the planned audit scope as a result of a material business combination or the identification of a material misstatement of the financial statements. A record of the significant changes to the overall audit strategy and resulting changes to the planned nature, timing and extent of audit procedures explains the overall strategy finally adopted for the audit and demonstrates the appropriate response to significant changes occurring during the audit.
26. The manner in which these matters are documented is for the auditor to determine based on professional judgment. The form and extent of documentation depends on such matters as the size and complexity of the entity, the extent of other documentation, and the circumstances of the specific audit engagement. The specific audit methodology and technology used in the course of the audit also affects the form and extent of documentation. For example, the overall audit strategy and audit plan may be adequately documented as an integrated process without the need for separate documentation of each. In addition, the documentation of the overall audit strategy and audit plan ordinarily includes some or all of the matters that are required to be documented in paragraph 122 of ISA 315 and paragraph 73 of ISA 330. ISA 230, "Documentation" provides additional guidance regarding documentation in the context of the audit of financial statements.

Communications With Those Charged With Governance and Management

- 26a. The auditor may discuss elements of planning with those charged with governance and the entity's management. These discussions may be a part of overall communications or may be made to improve the effectiveness and efficiency of the audit. Discussions with those charged with governance ordinarily include the scope and timing of the audit, including any limitations thereon, or any additional requirements. Discussions with management often occur to facilitate the conduct and management of the audit engagement (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussions of matters included in the overall audit strategy or audit plan occur, care is required in order to not compromise the effectiveness of the audit. For example, the auditor considers whether discussing the nature and timing of detailed audit procedures with management compromises the effectiveness of the audit by making the audit procedures too predictable.

Considerations in Initial Audit Engagements

27. The purpose and objective of planning the audit are 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, additional matters the auditor may consider in developing the overall audit strategy and audit plan include the following:

- Where allowed by relevant law or regulation, arrangements to be made with the previous auditor, for example, to review the previous auditor's working papers.
- 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.
- 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.
- 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).

Effective Date

28. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2004.

Public Sector Perspective

1. *This ISA is applicable in all material respects to audits of public sector entities.*
2. *Some of the terms used in this ISA such as "engagement partner" and "firm" should be read as referring to their public sector equivalents.*
3. *Paragraph 8 of this ISA refers to ISA 210, "Terms of Audit Engagements" and Proposed ISA 220, "Quality Control for Audit Engagements." The Public Sector Perspectives to those ISAs contain a discussion of their applicability to audits of public sector entities, and are therefore relevant to the application of this ISA in the public sector.*

Examples of Matters the Auditor May Consider in Developing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in developing the overall audit strategy. The examples provided cover a broad range of matters applicable to many engagements however, not all matters are relevant to every audit engagement and the list is not necessarily complete. Further, some of the matters referred to below may be covered by other ISAs. 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 may consider 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 use of audit evidence obtained in prior audits, for example, audit evidence related to risk assessment procedures and tests of controls.
- The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques.
- 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.
- 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.
- The coordination of the expected scope and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews.
- 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 engagement quality control 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, including considering the appropriate amount of time for the audit work to be performed by professional staff included in the engagement team.
- Other matters requiring special attention, for example, the existence of related parties, the use of work from internal audit, and the entity's use of service organizations.

Organizing the Nature and Timing of Expected Communications with the Entity

The auditor may consider 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.
- The scheduling of 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 may consider 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.

Materiality

The auditor may consider 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.

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 may consider 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 for the following:
 - Bringing significant audit and accounting issues to the auditor's attention and how those matters will be resolved.
 - Ensuring that appropriate consultations take place on difficult or contentious auditing or accounting matters.
 - Resolving differences of opinion among engagement team personnel and/or between engagement team personnel and the quality control reviewer.
- Establishing and communicating the scope and timing of the review of the following:
 - 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.
 - Audit work performed by group or other auditors.
 - The engagement quality control 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.