

ASA 300 Planning an Audit of a Financial Report

(Conformity with ISA 300 *Planning an Audit of Financial Statements*)
(Superseded Australian auditing standard – AUS 302 *Planning*)

OBJECTIVE

The objective of ASA 300 *Planning an Audit of a Financial Report* is to prescribe mandatory requirements in relation to planning the audit so that the engagement will be performed in an effective manner that reduces audit risk, including establishing the overall audit strategy; determining the preliminary engagement activities at the beginning of the current audit engagement, initial engagement activities, and documentation.

EXTENT OF CHANGE FROM AUS 302



KEY ASA 300 ASPECTS TO NOTE

- Bold-letter paragraphs: 8 compared to 4 previously. ASA 300 must be read in conjunction with ASA 100 *Preamble to AUASB Standards*.
- New requirements and guidance on planning the nature, timing and extent of direction and supervision of engagement team members and review of their work.
- New requirements and guidance on preliminary engagement activities.
- Documentation is required of the overall audit strategy and the audit plan, including any significant changes made during the audit engagement.
- New requirements and guidance on establishing the overall audit strategy.
- New requirements and guidance on additional considerations in initial audits.
- Emphasis on development of the audit plan to reduce audit risk to an acceptably low level.
- Appendix 1 lists examples of matters the auditor may consider in establishing the overall audit strategy.
- New requirements and guidance on changing and updating the overall audit strategy and the audit plan as necessary during the course of the audit.
- Guidance on audits of small entities is included.

APPLICATION

Financial reporting periods commencing on or after 1 July 2006.

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MAIN FEATURES

INTRODUCTION	
ASA 300.5 GUIDANCE	<p>'The auditor shall plan the audit so that the engagement will be performed in an effective manner.'</p> <p>The explanatory guidance in ASA 300 explains that planning involves establishing the overall audit strategy for the engagement and developing an audit plan, to reduce audit risk to an acceptably low level. It goes on to explain who should be involved and the benefits for the audit of adequate planning. It acknowledges that 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. Planning is not a discrete phase, but rather a continual and iterative process that takes into account 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, analytical procedures to be applied as risk assessment procedures, obtaining of a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework, determination of materiality; and involvement of experts. Also planned is the performance of other risk assessment procedures prior to identifying and assessing the risks of material misstatement and performing further audit procedures at the assertion level for classes of transactions, account balances, and disclosures that are responsive to those risks.</p> <p>ASA 302.2 <i>'The auditor should plan the audit work so that the audit will be performed in an effective manner.'</i></p>
PRELIMINARY ENGAGEMENT ACTIVITIES	
ASA 300.9 GUIDANCE	<p>'The auditor shall perform the following activities at the beginning of the current audit engagement:</p> <ul style="list-style-type: none"> • perform procedures regarding the continuance of the client relationship and the specific audit engagement; • evaluate compliance with relevant ethical requirements relating to the audit engagement, including independence; and • establish an understanding of the terms of the engagement.' <p>The explanatory guidance in ASA 300 explains that the auditor's initial procedures on both client continuance and evaluation of compliance with relevant ethical requirements relating to the audit engagement need to be performed prior to performing other significant activities for the current audit engagement. Performing these preliminary engagement activities helps to ensure that the auditor plans an audit engagement for which the auditor maintains the necessary independence and ability to perform the engagement; there are no issues with management integrity that may affect the auditor's willingness to continue the engagement; and there is no misunderstanding with the client as to the terms of the engagement.</p>
PLANNING AUDIT STRATEGY	
ASA 300.12 GUIDANCE	<p>'The auditor shall establish the overall audit strategy for the audit.'</p> <p>The explanatory guidance in ASA 300 explains that the overall audit strategy sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan, as well as helping ascertain the nature, timing and extent of resources needed. The guidance goes on to explain the factors that the establishment of the audit strategy ordinarily involves. It explains the need to consider the results of preliminary engagement activities and, where practicable, experience gained on other engagements performed for the entity. Appendix 1 lists examples of matters the auditor may consider in establishing the overall audit strategy. The guidance goes on to explain that although the auditor ordinarily establishes the audit strategy before developing the detailed audit plan, the two planning activities are not necessarily discrete or sequential processes but are closely inter-related since changes in one may result in consequential changes to the other.</p>
PLANNING TO REDUCE AUDIT RISK	
ASA 300.18 GUIDANCE AUS 302.08	<p>'The auditor shall develop an audit plan for the audit in order to reduce audit risk to an acceptably low level.'</p> <p>The explanatory guidance in ASA 300 explains that the audit plan is more detailed than the audit strategy and includes the nature, timing and extent of audit procedures to be performed by engagement team members in order to obtain sufficient appropriate audit evidence. Documentation of the audit plan also serves as a record of the proper planning and performance of the audit procedures. The guidance goes on to list usual inclusions in the audit plan.</p> <p><i>'The auditor should develop and document an audit plan describing the expected scope and conduct of the audit.'</i></p>

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PLANNING TO REDUCE AUDIT RISK (cont.)	
ASA 300.21	'The overall audit strategy and the audit plan shall be updated and changed as necessary during the course of the audit.'
GUIDANCE	The explanatory guidance in ASA 300 explains that 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.
ASA 300.23	'The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and review of their work.'
GUIDANCE	The explanatory guidance in ASA 300 explains that the nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including the size and complexity of the entity, the area of audit, the risks of material misstatement, and the capabilities and competence of personnel performing the audit work. ASA 220 <i>Quality Control for Audits of Historical Financial Information</i> contains detailed guidance on the direction, supervision and review of audit work.
DOCUMENTATION	
ASA 300.27	'The auditor shall document the overall audit strategy and the audit plan, including any significant changes made during the audit engagement.'
GUIDANCE	The explanatory guidance in ASA 300 explains that the auditor needs to document the overall audit strategy, the audit plan in sufficient detail 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, and any significant changes to the originally planned overall audit strategy and to the detailed audit plan, including the reasons for the significant changes and the auditor's response to the events, conditions, or results of audit procedures that resulted in such changes. The guidance goes on to explain that the form and extent of documentation depend on such matters as the size and complexity of the entity, materiality, the extent of other documentation, and the circumstances of the specific audit engagement. Additionally, the guidance explains that the auditor may discuss elements of planning with those charged with governance and the entity's management and clarifies the nature of those discussions.
AUS 302.10	<i>'The auditor should develop and document an audit program setting out the nature, timing and extent of planned audit procedures required to implement the audit plan.'</i>
AUS 302.12	<i>'The audit plan and the audit program should be revised as necessary during the course of the audit.'</i>
ADDITIONAL CONSIDERATIONS IN INITIAL AUDIT ENGAGEMENTS	
ASA 300.31	The auditor shall perform the following activities prior to starting an initial audit: a) perform procedures regarding the acceptance of the client relationship and the specific audit engagement; and b) communicate with the previous auditor, where there has been a change of auditors, in compliance with relevant ethical requirements relating to the audit engagement.
GUIDANCE	The explanatory guidance in ASA 300 explains that although the purpose and objective of planning are the same whether an initial or recurring engagement, for an initial audit planning activities may need to be expanded because previous experience with the entity may be limited. It goes on to expand on matters the auditor may consider in developing the overall audit strategy and audit plan for initial audits.

CONFORMITY WITH INTERNATIONAL STANDARD ON AUDITING (ISA) 300

There are no differences in requirements between ASA 300 and ISA 300 other than matters explained in the *Overview of ASAs Fact Sheet*.

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