

Standard on Auditing – 300

Planning an audit of Financial Statements



10 December 2021

Agenda

- ❖ **Setting the context**
- ❖ **Considerations while establishing overall audit strategy**
- ❖ **Preliminary engagement activities**
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- ❖ **Impact of audit strategy on audit plan**
- ❖ **Documentation – Key considerations**
- ❖ **Considerations specific to smaller entities**



Setting the context

Outline of standards on auditing issued by the ICAI

❑ Standards on Quality Control (SQC)

- SQC 1, "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements"

❑ Standards on auditing (SA)

- 100-199 introductory matters
- 200-299 General Principles and Responsibilities
- 300-499 Risk Assessment and Response to Assessed Risks
- 500-599 Audit Evidence
- 600-699 Using Work of Others
- 700-799 Audit Conclusions and Reporting
- 800-899 Specialized Areas

❑ Standards on review engagements (SRE) – 2000-2699

❑ Assurance Engagements Other Than Audits or Reviews of Historical Financial Information – 3000-3699

❑ Related Services – 4000 – 4699



Setting the context (Contd.)

Overview of the requirements of the Standard

300-499 Risk Assessment and Response to Assessed Risks

Standard on Auditing
300 : Planning the audit
of financial statements

*Lays down the
requirements on
audit planning*

Implementation guide on the
standard

*Explains the implementation
aspects
(Published in Feb 2016)*



The standard was issued in December 2007 and is effective for accounting period beginning on or after from 1 April 2008

Considerations while establishing overall audit strategy



Preliminary engagement activities

Risk and planning considerations



- Performance of the initial risk assessment activities and identification of risk of material misstatements
- Planned audit approach on areas where significant risks of error or fraud identified
- Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them. - Example IT audit

Other qualitative aspects



- Determination of materiality - SA 320
- Volume of business transactions
- Group reporting engagements - identification of components, materiality allocations to them etc. SA 600
- Significant changes in financial reporting framework
- Changes in laws and regulations affecting the entity
- Significant business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.

Administrative aspects



- The resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high-risk areas involvement of experts on complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to observe the inventory count at material locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high-risk areas;
- When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and
- When and how the engagement reviews are planned

It is imperative that the engagement team establishes a holistic planning strategy at the commencement of the engagement

Inter-play with other standards on auditing

Planning an audit in compliance with the standard on auditing will enable the auditor to form an appropriate audit opinion

SA 200 'Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards of Auditing'

SA 250 'Consideration of Laws and Regulations in an Audit of financial statements'

SA 330 'The Auditor's Responses to Assessed Risks'

SA 501 Audit Evidence – Specific Considerations for Selected Items

SA 505 'External Confirmations'

SA 540 'Auditing Accounting Estimates including Fair Value Accounting Estimates and Related Disclosures'

SA 570 'Going Concern'

SA 620 'Using the Work of an Auditor's Expert'



SA 210 'Agreeing the Terms of Audit Engagements'

SA 230 'Audit Documentation'

SA 315 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment'

SA 320 'Materiality in Planning and Performing an Audit'

SA 260 'Communications with Those Charged with Governance'

SA 402 'Audit Considerations Relating to an Entity Using a Service Organisation'

SA 600 'Using the Work of Another Auditor'

Impact of audit strategy on audit plan

The audit strategy sets out the premise which serve as the basis of the audit plan

Consideration on audit strategy

Effect on Audit plan

The financial reporting framework

The auditor should plan the appropriate team with requisite technical expertise to deploy for an audit of financial statements prepared pursuant to the applicable financial reporting framework.

Need for statutory audit

The audit plan shall be prepared in accordance with the scope of the engagement in line with the local regulations.

The expected audit coverage

Depending on the audit strategy, the auditor needs to plan the nature and extent of audit procedures to provide adequate coverage for the purpose of the engagement.

Impact of audit strategy on audit plan (Contd.)

Consideration on audit strategy

Effect on Audit plan

The coordination of
with other audit work

The auditor may place reliance on the information examined in course of limited reviews or interim audits and plan additional audit procedures to supplement audit work performed up to the date of interim financial statements

Industry-specific
Reporting
requirements

The industry specific reporting requirements need to be recorded in the audit plan together with nature, extent and timing of related audit procedures.

The nature of the
business segments to
be audited

Based on the requirements, the auditor may plan to use a specialist with appropriate expertise to provide inputs on the matters in respect of segments.

Impact of audit strategy on audit plan (Contd.)

Consideration on audit strategy

Effect on Audit plan

Effect of information technology

If the auditor decides to use CAATs on the engagement, following aspects need to be considered as part of the audit plan:

- Identifying the specific databases or applications to be examined
- Defining the specific tests to be performed together with output requirements.
- Arranging for audit with appropriate skills and coordinating with entity staff.
- Reconciling data to be used in CAATs with accounting records.
- Methods of evaluating results and audit conclusions.

CAATs may be used for performing:

- tests of controls (both IT general controls and application controls).
- determining the samples.
- tests of details (such as reperformance of calculations).

Impact of audit strategy on audit plan (Contd.)

Consideration on audit strategy

Effect on Audit plan

Entity's timetable of reporting

The nature, extent and timing of audit procedures would be dependent on such timelines. The auditor shall need to deploy resources in accordance with such plan to meet agreed upon deadlines and also plan to supervise the engagement effectively to ensure timely progress.

Volume / nature of transactions

As stated in SA 330, the auditor performs tests of controls (both design and operating effectiveness review) when substantive analytical procedures and/ or tests of details cannot provide sufficient audit evidence at the assertion level on account of the volume/ nature of transactions.

Significant changes in the financial reporting framework

While designing the audit plan, the auditor shall need to conduct a detailed analysis of impact of such changes (for example introduction of a new Accounting Standard) and determine audit procedures to address these requirements. This may be onerous at times since the entity's finance team may not have adequate expertise to understand and / or apply effect of such changes.

Impact of audit strategy on audit plan (Contd.)

Consideration on audit strategy

Effect on Audit plan

Changes in the legal environment affecting the entity

For example, changes to the listing agreement may require certain supplemental disclosures or changes to taxation laws may impact valuation of tax provisions. While designing the audit plan, the auditor shall take into cognizance all such key changes and determine procedures to ensure appropriate compliance.

Results of previous audits that involved evaluating the operating effectiveness of internal control

The auditor should peruse the insights gained earlier and reflect in the audit plan any specific procedures where any past misstatements or control deficiencies were noted in the previous audit. This would ensure the risk identified in the previous audit has been adequately mitigated. These may include plan to have an incremental coverage within the audit area, obtaining more persuasive evidences etc.).

Impact of audit strategy on audit plan (Contd.)

Consideration on audit strategy

Effect on Audit plan

The selection of the engagement team

Selection of the engagement team will impact the nature, extent and timing of direction, supervision and review required. For example, for an engagement team with previous experience on this engagement, level of supervision and review would be proportionately reduced.

Engagement budgeting

Tracking to engagement budget is essential to drive efficiencies and manage economics. The monitoring mechanism for budget to actuals needs to be set up during the planning stage.

Documentation – Key considerations

❖ The overall audit strategy

- The auditor may summarize the overall audit strategy in the form of a memorandum that contains key decisions i.e. overall scope, timing and conduct of audit
- Illustrative format of the audit memorandum provided in Appendix 2 to implementation guide

❖ The audit plan

- Documentation covers records of planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks
- Illustrative format of the audit memorandum provided in Appendix 4 to implementation guide
- It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance.
- A record of the significant changes to the overall audit strategy and the audit plan and the reasons for such changes, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit.



Considerations specific to smaller entities



❖ **Audit strategy**

- Establishing the overall audit strategy for the audit of a small entity need not be a complex or time-consuming exercise;
- Audit strategy varies according to the size of the entity, the complexity of the audit, and the size of the engagement team.
- A brief memorandum prepared in the previous year and inputs through management discussion in the current year may serve as the strategy memorandum

❖ **Audit plan**

- Standard audit program checklists assuming few controls may be used provided they are tailored in the circumstances

❖ **Direction and supervision**

- Engagement partner expected to be aware of the material issues and other developments during the audit as the team size is very small
- For complex issues, it may be desirable to consult other more experienced partners
- Co-ordination and communication easier since there are a few team members involved

Q&A



Thank you