

SA 300: Planning an Audit of Financial Statements

1

Scope of SA

Deals with-

- Auditor's resp. to plan audit of FS
- Recurring audits

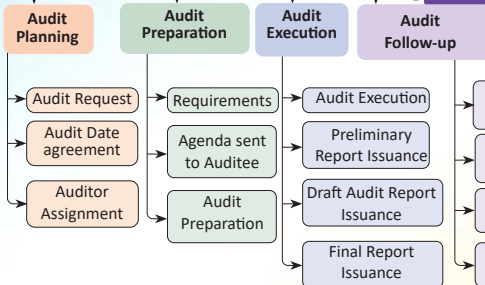
2.3 Nature & Extent of planning

- (a) Past experience & expertise
- (b) Size & complexity of the auditee
- (c) Changes in circumstances

2

Audit Plan

2.1 Commencing an Audit



Work of others

Assisting, where applicable, in coordination of work done by auditors of components and experts.

Direction, Supervision, Review

Facilitating the direction and supervision of ET members and the review of their work

Focus
Helping the auditor to devote appropriate attention to important areas of the audit.

A

Pre-empt Problems
Helping the auditor identify and resolve potential problems on a timely basis.

B

2.2 Benefits of Audit planning

C

Effectiveness & Efficiency
Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner.

D

Team Selection
Assisting in the selection of ET members to respond to anticipated risks, and proper assignment of work

E

2.6

Involvement of Key ET Members

The EP and other KM of the ET shall be actively involved in planning and participating in the discussion.

2.4 Features of Planning

(a)

Planning a continuous process

Planning is a not discrete phase but a continuous process. It involves consideration of timing of certain activities and audit. For eg. prior to risk assessment following matters can be considered:

- (i) Analytical procedures for risk assessment
- (ii) General L & R framework of entity & procedures to comply.
- (iii) Materiality levels
- (iv) Use of experts
- (v) Other RAP to be performed

(b)

Discussion of Plan with MGT

The auditor may discuss elements of planning with the MGT

2.5 Overall Audit strategy and Audit Plan-Responsibility of the auditor

1

Discuss elements of planning with MGT
to conduct & manage audit engagement

2

No compromise in audit effectiveness when discussing overall audit strategy or audit plan

2.7 Preliminary Engagements Activities (PEA)

- A Establishing an understanding of the terms of the engagement as required by SA 210.
- B Evaluating compliance with ethical requirements, including independence.
- C Performing procedures required by SA 220 regarding continuance of the client relationship & specific audit engagement.

Benefits of performing PEA is it enables auditor to:

- a) maintain independence,
- b) assess MGT integrity issues
- c) avoid misunderstanding

2.8 Contents of an Audit Plan

In the audit plan following description should be included:

- a) The N.T.E. of **planned RAP**-(as per SA 315)
- b) The N.T.E. of **planned FAP** at assertion level (SA 330)
- c) **Other planned audit procedures** that are necessary for compliance with SAs

Audit plan is more detailed than overall audit strategy



2.11 Additional Considerations in Initial Audit Engagements

The auditor shall undertake the following **activities prior to starting an initial audit**:

- A** Performing procedures required by SA 220 regarding the acceptance of the client relationship & specific audit engagement
- B** Communicating with predecessor auditor.

Additional Considerations in Initial Audit Engagements

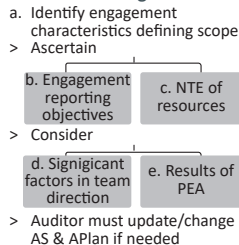
1. **Unless prohibited by L or R, arrangements to be made with the predecessor auditor**
For eg. To review the predecessor auditors working papers.
2. **Any major issues discussed with MGT in connection with the initial selection as auditor**, the communication of these matters to TCWG and how these matters affect the overall audit strategy and audit plan.
3. **The audit procedures necessary to obtain SAAE regarding opening balances (SA 510)**
4. **Other procedures required by the firm's system of QC for initial audit engagements.**
Eg. Involvement of senior individual/another partner to review overall audit strategy prior to commencement of significant audit procedures or review reports prior to issuance.

3

AUDIT STRATEGY

3.1 Consider the foll. factors while establishing AS-

- The auditor must establish an overall audit strategy that:
- Sets the **scope, timing and direction of the audit** and
- Which guides the development of the audit plan.



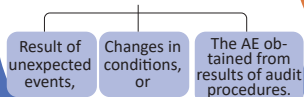
2.10 Nature, Timing and Extent or Direction & Supervision of Team & Review of work

Determining factors includes:

- Size and complexity of the entity.
- Area of the audit.
- Assessed ROMM
- Capabilities and competence of the individual team members

2.9 Changes to Planning Decisions

Due to-

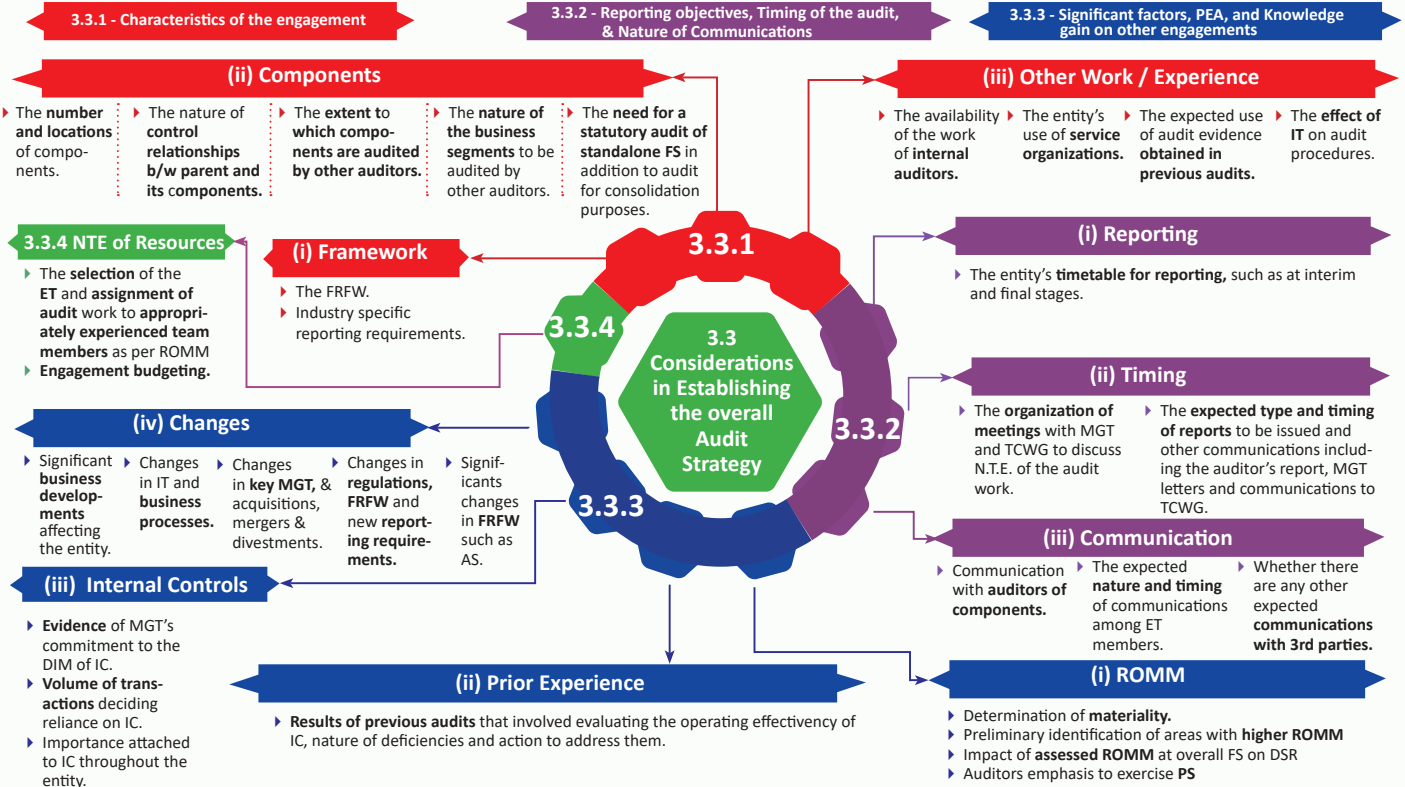


Auditor to modify NTE of FAP accordingly.

3.2 Benefits of Overall AS

Assist auditor in determining matters such as -

- a) Qualitative employment
 - b) Quantity allocation
 - c) Timing of deployment
 - d) Mgt, Direction & Supervision
- } of Resources



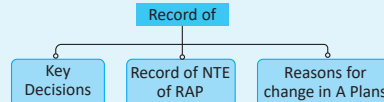
3.4 Relationship b/w Overall AS & A Plan

- 1 AS ← prepared before → A Plan
- 2 Change in AS result in change in A Plan
- 3 AS → provide guidelines → for developing A Plan
- 4 Establishes scope and conduct of audit procedures
- 5 Detailed A Plan including NTE of audit procedure to obtain SAAE.
- 6

High Materiality	→ Detailed Procedures	← High Risks
Low Materiality	→ Test Checks	← Low Risks

3.5 Documenting the Audit Plan & Strategy

Document AS, A Plan and significant changes made in the AS or plan with reasons, such as



4

AUDIT PROGRAMME



4.2 Drawing up the audit programme

(a) First Time Audit

(1) Developed in 3 stages-

- 1 A broad outline of A-Pr drawn up.
- 2 After Review of internal & a/cing procedures
↓
Details to be filled up, considering deficiencies in IC system
- 3 After detailed checking procedure
↓
apply special procedures and like checking opening balance, special items.

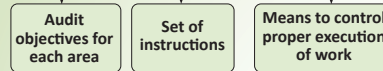
(2) Subsequent Engagement (SE)

At each SE, review A-Pr & modify it on account of:

- 1 **Experience gained** during the previous audits;
- 2 **Important changes** that have taken place in the business specially in the system of IC, a/cing procedures or in the structure of MGT or of the scope of business; and
- 3 **Evaluation of IC made** for the current year.

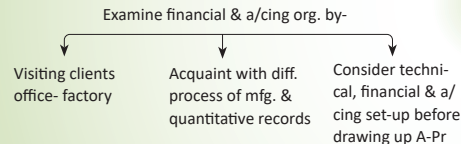
4.1 Formulating an Audit Programme

It contains

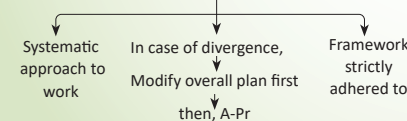


(a) The important matters which need to be considered in this regard are:

1. Nature of business in which the organisation is engaged:



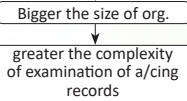
2. Overall Plan



3. System of IC & a/cing procedures

- ▶ Ensure continuous checking of financial & statistical records
- ▶ Ensure transactions properly authorised & recorded & not omitted
- ▶ Unearth errors
- ▶ Reliance on ICs in determining NTE of substantive auditing procedures.
- ▶ Examination of IC system including-
 - (1) Review
 - (2) Preliminary evaluation
 - (3) Testing of compliance & evaluation

4. Size of Org. and Structure of its MGT



6. A/cing and MGT Policies

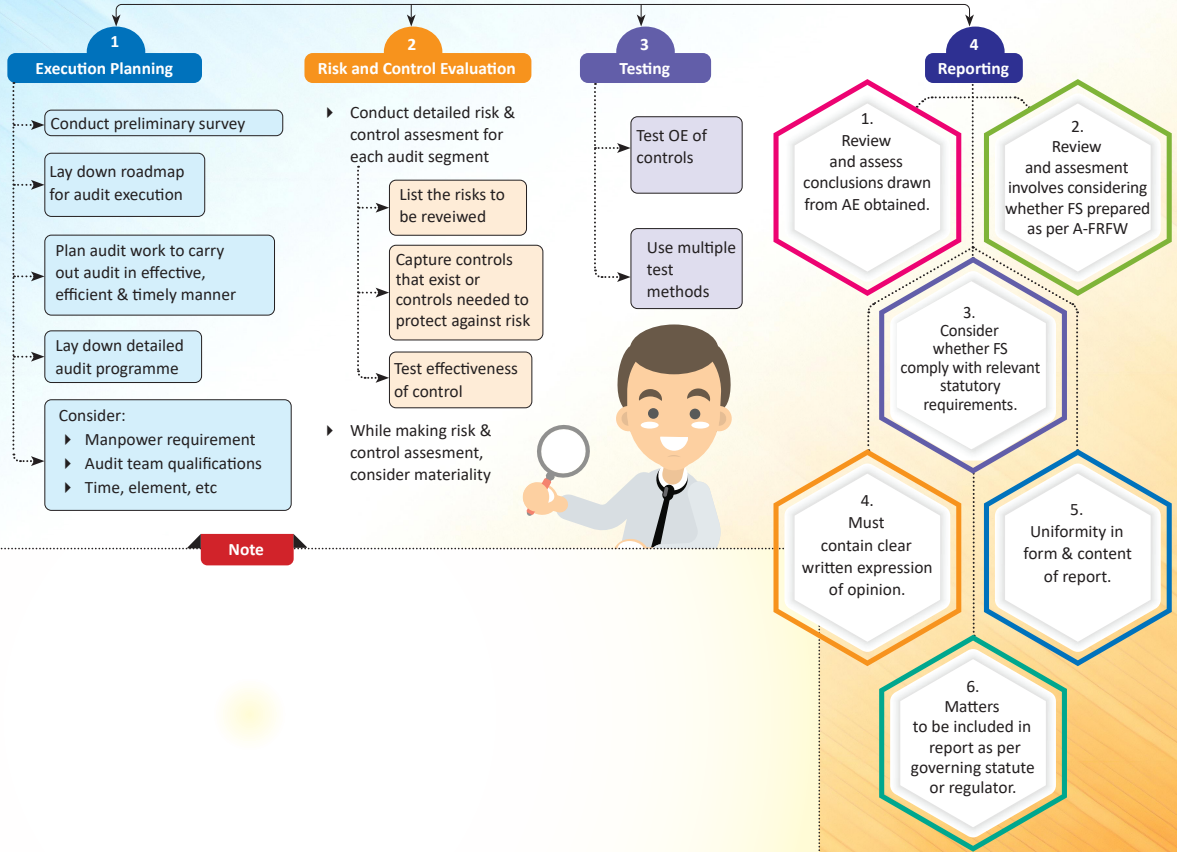
- ▶ Review FS of past years, specially, immediately preceding P.Y.
- ▶ Obtain info. abt. a/cing & MGT policies & whether these employed consistently.

5. Information as regards org. of business

- Obtain from client info. on:**
- ▶ Client's history & business
 - ▶ Purpose
 - ▶ Nature of engagement
 - ▶ Time of audit completion

5 AUDIT EXECUTION

- 3. Alteration in the Audit Programme**
- 01** Volume of turnover substantially increased.
 - 02** Significant changes in a/cing org., procedures & personnel.
 - 03** Ineffective IC procedures
 - 04** Extraordinary increase in book debts or value of stocks
 - 05** A suspicion or info received that asset have been misappropriated.
- Audit plan & programme to be revised/reconsidered as audit progresses and IC are reviewed and compliance and substantive procedures are applied.





A. Introduction

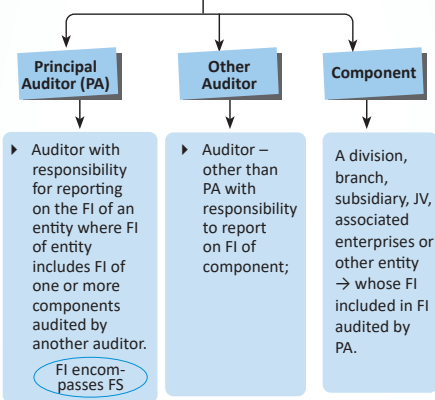
1. Scope

Principal auditor is entitled to rely to work of other auditor, provided he exercises adequate skill & care and has no reason to believe other wise.

1A. Non Applicability :-

- a Joint Auditors
- b Auditor's relationship with a predecessor auditor

2. Definition



3. Purpose

- 1 Establish standards to be applied when PA uses the work of other auditor
- 2 Discuss responsibility of PA when using the work of OA.



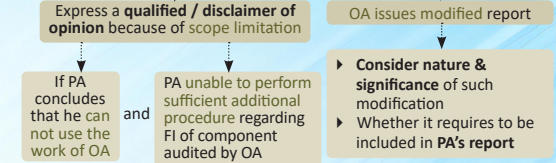
B. Acceptance AS Principal Auditor

- Consider the following before accepting work as PA:
- The **materiality** of the portion of FI which the PA audits;
 - PA's **degree of knowledge** regarding the business of components;
 - The **ROMM** in the FI of the components audited by OA; and
 - Whether additional procedures of this SA can be applied

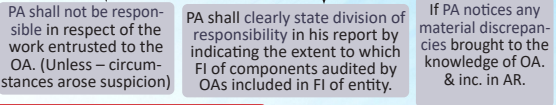
D. Co-ordination Between Auditors

- i. **Sufficient liaison** between PA & OA for which PA may issue **written communication** to OA.
- ii. OA should **co-ordinate** with PA knowing the context in which his work is to be used
- iii. PA to **advise** OA of matters affecting OA.
- iv. PA may require OA to answer a **detailed questionnaire**
- v. OA to **respond to questionnaire** on timely basis

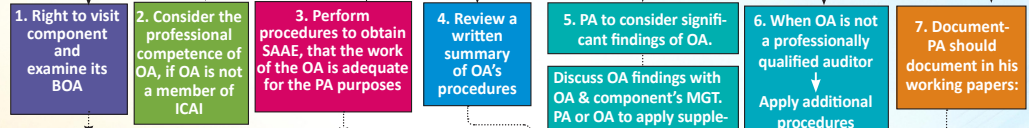
E. Reporting Considerations



F. Division of Responsibility



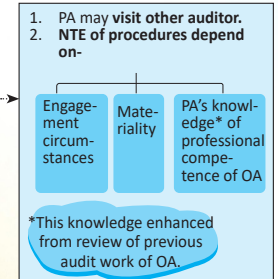
C. The Principal Auditor's Procedures



Where OA has been appointed for the component, the PA would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it essential for him to visit the component and/or to examine the BOA and other records of the said component.

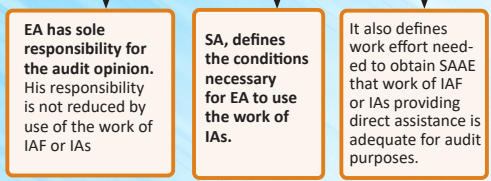
When using the work of OA- the PA should ordinarily perform the following procedures:

- a. Advise OA about use of his work and report & make sufficient arrangements for co-ordination at audit planning stage. PA would inform the OA of matters such as:
 - areas requiring special consideration,
 - procedures for the identification of inter component transactions that may require disclosure and
 - time-table for completion of audit.
- b. Advise OA of the significant a/cing, auditing and reporting requirements and obtain representation as to compliance with them.

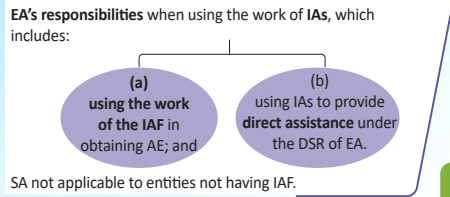


- a. Results of discussion with OA & review of written summary of OA's procedures.
- b. Where OA's report is modified- document how qualifications or adverse remarks are dealt with.
- c. Need **not to document** reasons for limiting the procedures.

A. The External Auditor's Responsibility for the Audit

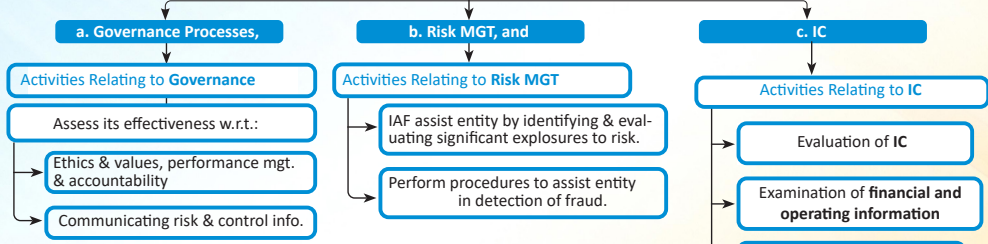


B. Scope of this SA

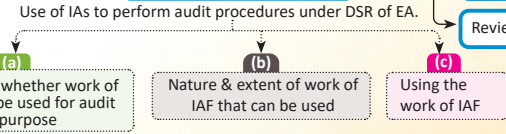


D. IAF & Direct Assistance

1. Internal Audit Function (IAF)
Objectives and scope of IAF include assurance and consulting activities, designed to evaluate and improve the effectiveness of the entity's:

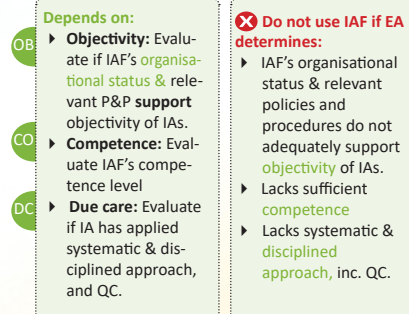
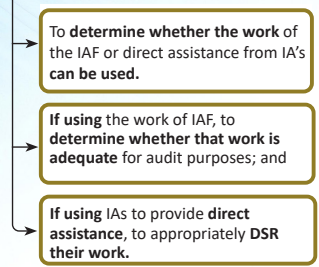


2. Direct Assistance

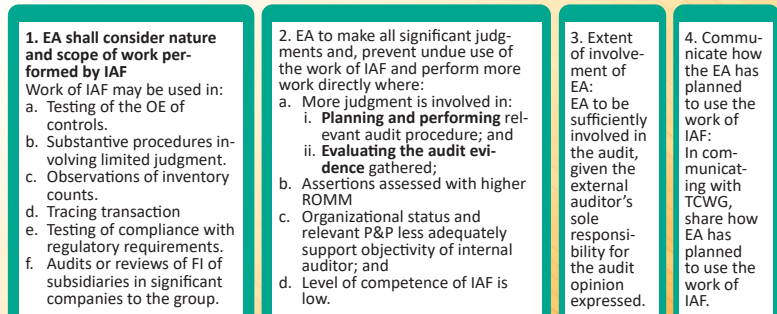


E. Whether work of IAF can be used ?

C. EA Objectives, where Entity has IAF



F. Determine the nature and extent of work of the IAF that can be used

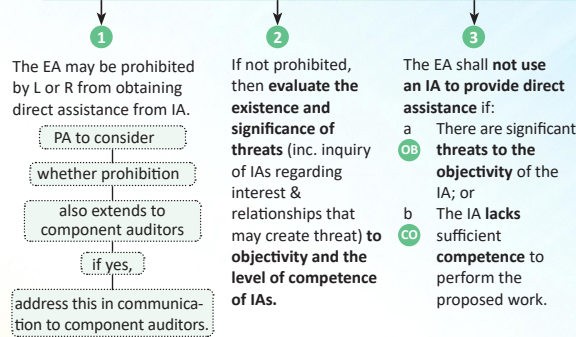


G. Using the work of IAF

- 1** Discuss the planned use of its work: Discuss on matters like:
 - ▶ NTE of AP ▶ Sample Size ▶ Scope of work
 - ▶ Documentation ▶ Report
- 2** Read the reports of the IAF relating to the work of the function to understand N&E of AP performed and his findings.
- 3** Perform sufficient audit procedures on the work of the IAF including evaluating whether:
 - a. The work of the IAF- properly **planned, performed, supervised, reviewed and documented**;
 - b. **SAAE** had been obtained to enable the function to draw reasonable conclusions; and
 - c. **Conclusions reached are appropriate** in the circumstances and the reports prepared by the function are consistent with the results of the work performed.
- 4** The nature and extent of the EA's AP shall be responsive to the EA's evaluation of:
 - JU** a. The amount of judgment involved;
 - RO** b. The assessed ROMM;
 - OB** c. The extent to which the IAF's **organizational status** and relevant policies and procedures support the objectivity of the IAs; and
 - CO** d. The level of competence of the function; and
- 5** Evaluate whether the EA's conclusions regarding the IAF and the determination of the nature and extent of use of the work of the function for purposes of the audit remain appropriate.



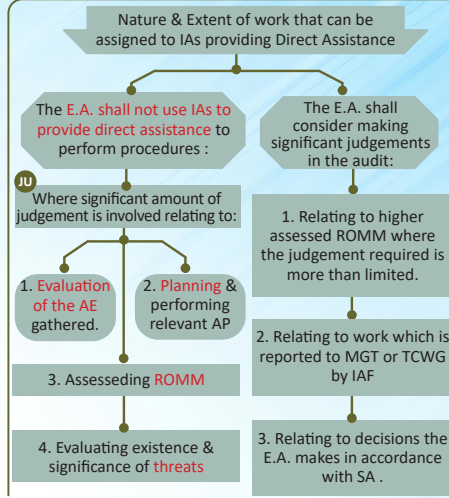
H. Determining whether IA can be used to provide Direct Assistance for purposes of the Audit



- Factors to be considered in evaluating existence and significance of threats to the objectivity of IA:**
- | | |
|---|--|
| <p>a The extent to which IAF's organizational status and relevant P&Ps support the objectivity of IAs.</p> <p>b Family and personal relationships with the entity to which the work relates.</p> | <p>c Association with the division or department in the entity to which the work relates.</p> <p>d Significant financial interests in the entity other than remuneration.</p> |
|---|--|



I. Determining the Nature and Extent of Work that can be Assigned to IAs Providing Direct Assistance



J. Review of the work Performed by IAs

The EA shall DSR the work performed by IAs on the engagement in accordance with SA 220. In doing so:

- a** In determining the NTE of DSR - Recognize that the IAs are not independent of the entity; and
- b** The review procedures shall include the EA checking back to the underlying audit evidence for some of the work performed by the IAs.



SA 620: Using the work of an Auditor's Expert (A-Ex)

1 Scope

- Deals with auditor's responsibilities regarding use of work in a field of expertise other than a/cing or auditing.
- Non-Applicability**
 - ET member having expertise in a/cing or auditing.
 - Using the work of MGT expert (SA 500).

2 Definition

(a) Auditor's Expert

An individual or organization whose work is used by the auditor

Possessing expertise in a field other than accounting/auditing

To assist auditor in obtaining SAAE

A-Ex may be auditor's

- Internal Expert (partner/staff-of auditor's firm network firm)
- External Expert

(b) MGT Expert

- An Individual or Org.
- possessing expertise in a field other than a/cing/auditing
- whose work in that field is used by entity
- to assist entity in preparing the FS.

Examples where auditor can use Expert's work

- The **valuation** of complex financial instruments, land and buildings, plant and machinery, etc.
- The **actuarial calculation** of liabilities.
- The **analysis of complex or unusual tax compliance**
- Interpretations** of contracts, L&R.

1A Objectives

To determine:

- Whether to use the work of an A-Ex; and
- Whether that work is adequate for the auditor's purposes.

3 The Auditor's Responsibility for Audit Opinion

- Auditor has **sole responsibility** for the audit opinion expressed.
- Responsibility is **not reduced** by use of work of an A-Ex.
- When work of A-Ex is adequate for auditor - Accept expert's findings or conclusions as appropriate AE.

4 Determining the need for an A-Ex

An A-Ex may be needed to assist the auditor in one or more of the following:

- Obtaining an **understanding of the entity and its environment, inc IC.**
- Identifying & assessing the **ROMM**
- Determining and implementing overall **responses to assessed risk at FS level.**
- Designing and performing **FAP to response to assessed risk at assertion level**, comprising ToCs or SP
- Evaluating the sufficiency & appropriateness of AE obtained** in forming an opinion on FS.

7 Competence, Capabilities and Objectivity (CCO) of the A-Ex

Auditor to evaluate CCO of A-Ex. and inquire on interests and relationship creating objectivity threats.

5 A. Considerations when deciding whether to use an A-Ex may include:

- Whether MGT has used **MGT's expert**.
- Nature & significance** of the matter including its **complexity**
- ROMM** in the matter
- Expected **nature of procedures to respond** to identified risks.
- Availability of **alternative sources of AE.**

B. Factors Influencing the Auditor's Decision W.R.T. use of A-Ex when MGT had used A MGT's Expert

- The **MGT expert's competence and capabilities.**
- The **nature, scope and objectives** of the **MGT's expert's work.**
- Whether the **MGT's expert** is subject to **technical performance standards or other professional or industry requirements.**
- Whether the MGT's expert is employed by the **entity**, or is a party engaged by it to provide relevant services.
- The extent to which **entity can exercise control or influence** over the work of the MGT's expert.
- Any controls within the entity** over the MGT expert's work.

6 NTE of Audit Procedures

A. Depend on circumstances affected by:

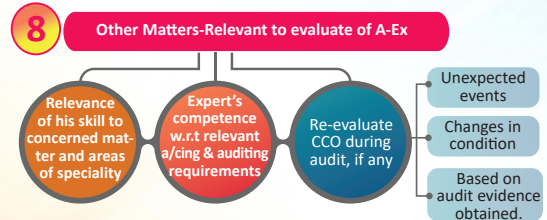
- Nature of the matter**
- ROMM**
- Significance of expert's work**
- Auditor's knowledge & experience** with previous work performed.
- Whether the expert is subject to the auditors **firm's QCPP.**

B. Factors suggesting need for different or more extensive procedures

- The work of A-Ex relates to a **significant matter** that **involves** subjective and complex **judgments.**
- The auditor has **not previously used** the work of A-Ex, and has **no prior knowledge** of that expert's competence, capabilities and objectivity.
- The A-Ex is performing procedures that are **integral to the audit**, rather than being consulted to provide advice on an individual matter.
- The expert is an **auditor's external expert** and is not, therefore, subject to the firm's QCPP.

- Competence-** Nature & level of expertise of the A-Ex.
- Capability-** Ability of A-Ex to exercise that competence in the circumstances of engagement.
- Objectivity-** Related to the possible effects of **bias, conflict of interest or influence** of other may have on the professional or business judgment of the A-Ex.

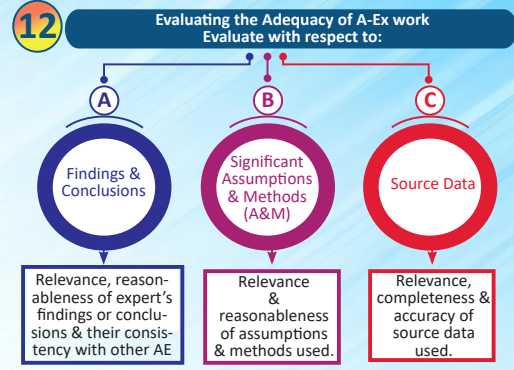
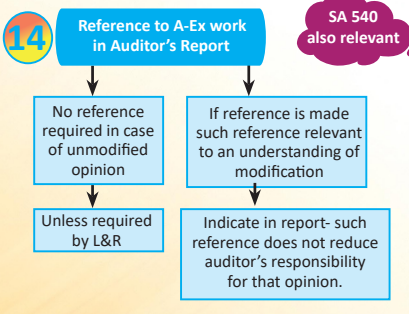
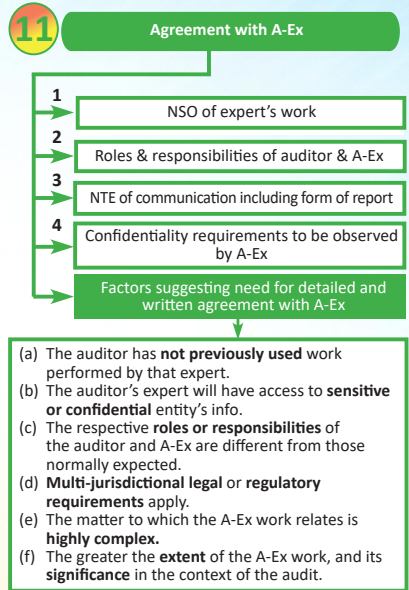
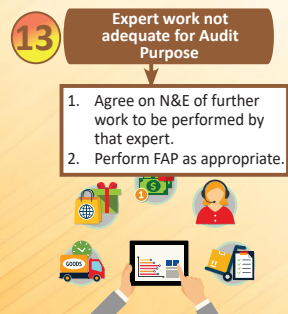
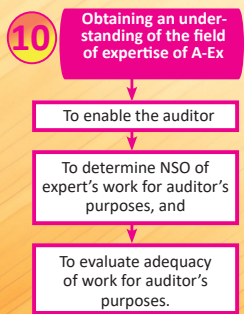




9 Evaluating the Objectivity of the Expert

When evaluating the objectivity of an auditor's external expert, it may be relevant to:

- Inquire entity about any known interests or relationships that entity has with auditor's external expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and
- Evaluate whether the safeguards are adequate to reduce threats to an acceptable level. **Interests and relationships** that may be relevant to discuss with the A-Ex include:
 - Financial interests.
 - Business and personal relationships.
 - Provision of other services by the expert
 - In some cases, Obtain WR from external expert about any interests or relationships with the entity.



(A) Findings & Conclusions:
Specific procedures to evaluate the adequacy of the A-Ex work:

- Inquiries of Auditor Expert's work.
- Reviewing the Auditor Expert's working papers and reports
- Corroborative procedure, such as-
 - Observing the Auditor Expert's work;
 - Examining published data, such as statistical reports from reputed & authoritative sources;
 - Confirming relevant matters with third parties;
 - Performing detailed APs to see whether principles of materiality aspects considered; and
 - Re performing calculations
- Discussion with another expert with relevant expertise when, for example, the findings or the conclusion of the Auditor Expert's are not consistent with other AE.
- Discussing the Auditor Expert's report with MGT.

(B) Evaluation of significant assumptions and methods.
(Where A-Ex. work involves evaluating underlying assumptions & methods, auditor to assess whether A&M are:)

- Generally accepted within the A-Ex field;
- Consistent with the requirements of the A-FRFW;
- Dependent on the use of specialised models; and
- Consistent with MGT, if not, reason, effects & differences.

(C) Source Data Used by the Auditor's Expert : Verify
Procedures to test source data-

- Verifying the **origin** of data
- ICs over the data & its transmission to the expert.
- Review data for **completeness & internal consistency**.

1. When Designing and Performing SAP

- a** Determine the **suitability** of particular SAP for given assertions.
- b** Evaluate **reliability** of data. Consider **source, comparability, nature & relevance** of available info & **controls over preparation**.
- c** Develop an **expectation** of recorded amounts or ratios. Evaluate whether expectation is sufficiently precise to **identify** a **misstatement**.
- d** Determine the amount of **difference acceptable without further investigation**.

2. Analytical → Procedures that Assist when Forming an Overall Conclusion

Auditor shall design and perform AP **near the end of audit** → that assist the auditor in → forming an **overall conclusion** as to whether the **FS are consistent with auditor's understanding of the entity**.

Benefits of overall conclusion drawn from such Analytical Procedures

1. Conclusions drawn from results of AP **intended to verify conclusions formed during audit** of individual components or elements of FS.

2. Assists in **drawing reasonable conclusions on which to base auditor's opinion**.

3. Result of AP may **identify previously unrecognised ROMM**

4. In such circumstances, SA 315 may require auditor to revise assessment of ROMM & modify FAP

The AP performed

in accordance with mentioned paragraph

May be **similar** to those that would

Be used as **RAP**



3. Investigating Results of An Pr

If APs performed in accordance with this SA 520 **identify fluctuations or relationships that are inconsistent** with other relevant information or that differ from expected values by a significant amount, the **auditor shall investigate** such differences by:

- a** **Inquiring of MGT** and obtaining appropriate audit AE to MGT's responses; and
- b** **Performing other audit procedures** as necessary in the circumstances.

The need to perform other audit procedures may arise when, **for example, MGT is unable to provide an explanation, or the explanation, together with the AE obtained relevant to MGT's response, is not considered adequate.**

NOTES