ISA 300: PLANNING AN AUDIT OF FINANCIAL STATEMENTS

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Uphold public interest

What are your expectations?

Presentation Outline

- What is Audit Planning & Risk Assessment?
- Provisions of ISA 300: Planning an Audit of Financial Statements
- Case study

What does Planning entail?

- Planning an audit involves;
  1. Establishing an overall audit strategy for the engagement.
  2. Developing an audit plan.

What is an Audit Strategy?

Audit Strategy sets the Direction, timing, and scope of an audit. It requires an understanding of the entity in respect to; Legal environment, Financial reporting standards, risks it faces, Size and complexity and industry dynamics.

Strategy development

In establishing the overall audit strategy, the auditor shall:

- Identify the characteristics of the engagement that define its scope;
- Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
- Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts.

Strategy development cont’d

- Consider the results of preliminary engagement activities
- Ascertain the nature, timing and extent of resources necessary to perform the engagement.

Audit Plan

- An audit plan is a detailed procedure that will be used in carrying out an audit assignment. It is developed from an audit strategy.
- Why plan?

Reasons for Planning

1. For smooth execution and efficiency.
2. Resource allocation – Finances and human resources.
3. Tool for directing and controlling an assignment.
4. To reduce audit and/or detection risk.

ISA 315: Risk Assessment

- Risk assessment is covered by ISA: 315 – Identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment.
- Risk assessment is a critical element of planning.

Risks

Definitions

1. Audit risk – risk of reaching incorrect conclusion.
2. Control risk – risk that material errors exists and could not be prevented or detected by the internal control system.
3. Inherent risk – is a risk associated with the nature of transaction – especially complex ones where error or omission in a financial statement are due to a factor other than a failure of **control**.

Risks

4. Detection risk – Detection risk is the possibility that an auditor fails to identify material misstatements in the financial statements of a firm and determines that there are no omissions or material errors before the statements are issued even though there are mistakes present.

Case Study