

Demonstrating the “Building-Blocks Approach” ISA 300, *Planning an Audit of Financial Statements*

Note:

The table below has been prepared by IAASB Staff for illustration purposes only, and provides a demonstration of applying a “building-blocks approach” to ISA 300, *Planning an Audit of Financial Statements*.

The requirements within ISA 300 were analyzed to illustrate the “building-blocks” i.e., each paragraph was categorized into the following:

Core	Applicable to every audit
Conditional	Applicable when specific circumstances are present
Listed	Applicable for listed entities

In addition to the mapping of the requirements to the “building-blocks,” specific areas within the selected ISAs were identified and highlighted for further consideration among the LCE Working Group, as follows:

- (a) With **red color** areas of ISA that respondents to the DP found challenging or difficult to apply in LCE audits (as outlined in [Supplement A to Agenda Item 6](#));
- (b) With **orange color** paragraphs addressing proportionality in the application and other explanatory material; and
- (c) With **blue color** referrals to requirements and guidance in other ISAs.

Paragraph	Section	Title	Extant	Grouping	Comments
ISA 300 Paragraph 1	Introduction	Scope of this ISA	This International Standard on Auditing (ISA) deals with the auditor's responsibility to plan an audit of financial statements. This ISA is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.	n/a	n/a
ISA 300 Paragraph 2	Introduction	The Role and Timing of Planning	<p>Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways, including the following: (Ref: Para. A1–A3)</p> <ul style="list-style-type: none"> • Helping the auditor to devote appropriate attention to important areas of the audit. • Helping the auditor identify and resolve potential problems on a timely basis. • Helping the auditor properly organize and manage the audit engagement so that it is performed in an effective and efficient manner. • Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them. • Facilitating the direction and supervision of engagement team members and the review of their work. • Assisting, where applicable, in coordination of 	<p>n/a</p> <p>Proportionality</p>	The application and other explanatory material within ISA 300, Paragraph A1 provides further guidance on proportional application as follows: <i>“The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members’ previous experience with the entity, and changes in circumstances that occur during the audit engagement.”</i>

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Paragraph	Section	Title	Extant	Grouping	Comments
			work done by auditors of components and experts.		
ISA 300 Paragraph 3	Effective Date	Effective Date	This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.	Core	n/a
ISA 300 Paragraph 4	Objective	Objective	The objective of the auditor is to plan the audit so that it will be performed in an effective manner.	Core	n/a
ISA 300 Paragraph 5	Requirements	Involvement of Key Engagement Team Members	The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members. (Ref: Para. A4)	Core LCE Specific Guidance	<p>Many small audits are carried out entirely by the engagement partner (who may be a sole practitioner). In such situations there may not be a need for a discussion among engagement team members.</p> <p>The application and other explanatory material within ISA 300, Paragraph A4, makes a referral to:</p> <ul style="list-style-type: none"> ISA 315 (Revised), paragraph 10, which establishes requirements and provides guidance on the engagement team's discussion of the susceptibility of the entity to material misstatements of the financial statements; and ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, paragraph 16, which provides guidance on the emphasis given during this discussion to the susceptibility of the entity's financial statements to material misstatement due to fraud.

Paragraph	Section	Title	Extant	Grouping	Comments
ISA 300 Paragraph 6	Requirements	Preliminary Engagement Activities	<p>The auditor shall undertake the following activities at the beginning of the current audit engagement:</p> <p>(a) Performing procedures required by ISA 220 regarding the continuance of the client relationship and the specific audit engagement;¹</p> <p>(b) Evaluating compliance with relevant ethical requirements, including independence, in accordance with ISA 220,² and</p> <p>(c) Establishing an understanding of the terms of the engagement, as required by ISA 210.³ (Ref: Para. A5–A7)</p>	<p style="background-color: #92d050; text-align: center;">Core</p> <p style="color: #0070c0; text-align: center;">Referral to other ISAs</p>	n/a
ISA 300 Paragraph 7	Requirements	Planning Activities	<p>The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.</p>	<p style="background-color: #92d050; text-align: center;">Core</p> <p style="color: #c00000; text-align: center;">LCE Specific Guidance</p>	<p>The application and other explanatory material within ISA 300, Paragraph A9 refers to the Appendix which lists examples of considerations in establishing the overall audit strategy.</p> <p>Respondents thought that the examples in the Appendix are applicable to entities of all sizes as they include examples for more complex considerations which may not be applicable for LCEs (e.g. use of experts, group audits, etc.).</p>

¹ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraphs 12–13

² ISA 220, paragraphs 9–11

³ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 9–13

Paragraph	Section	Title	Extant	Grouping	Comments
					Respondents commented that it is important to have more LCE specific tailored guidance that could assist proportional application.
ISA 300 Paragraph 8	Requirements	Planning Activities	<p>In establishing the overall audit strategy, the auditor shall:</p> <p>(a) Identify the characteristics of the engagement that define its scope;</p> <p>(b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;</p> <p>(c) Consider the factors that, in the auditor's professional judgment, are significant in directing the engagement team's efforts;</p> <p>(d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and</p> <p>(e) Ascertain the nature, timing and extent of resources necessary to perform the engagement. (Ref: Para. A8–A11)</p>	Core	<p>Respondents commented that it is important to have more LCE specific guidance that could assist scalability of these requirements as for example, the considerations specific to smaller entities make reference to simplification in the preparation of a brief memorandum, however, respondents thought it would be beneficial if an example of such a memorandum be provided for LCE audits (also see comments above to ISA 300, Paragraph 7).</p> <p>The application and other explanatory material within ISA 300, Paragraph A11 provides further Considerations Specific to Smaller Entities:</p> <p><i>"In audits of small entities, the entire audit may be conducted by a very small engagement team. Many audits of small entities involve the 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 of, and communication between, team members are easier. Establishing 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, the complexity of the audit, and the size of the engagement team. For example, a brief memorandum prepared at the</i></p>
				LCE Specific Guidance	

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					<i>completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented audit strategy for the current audit engagement if it covers the matters noted in paragraph 8."</i>
ISA 300 Paragraph 9	Requirements	Planning Activities	The auditor shall develop an audit plan that shall include a description of: (a) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised). ⁴ (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330. ⁵ (c) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A12-A14)	Core Referral to other ISAs	
ISA 300 Paragraph 10	Requirements	Planning Activities	The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A15)	Core	n/a

⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁵ ISA 330, *The Auditor's Responses to Assessed Risks*

Paragraph	Section	Title	Extant	Grouping	Comments
ISA 300 Paragraph 11	Requirements	Planning Activities	The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)	Core	The application and other explanatory material within ISA 300, Paragraph A17 provides further Considerations Specific to Smaller Entities: <i>“If an audit is carried out entirely by the engagement partner, questions of direction and supervision of engagement team members and review of their work do not arise. In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. 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 performs the entire audit. If 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.”</i>
				Proportionality	
ISA 300 Paragraph 12	Requirements	Documentation	The auditor shall include in the audit documentation: ⁶ (a) The overall audit strategy; (b) The audit plan; and Any significant changes made during the audit engagement to the overall audit strategy or	Core	The application and other explanatory material within ISA 300, Paragraph A21 provides further Considerations Specific to Smaller Entities: <i>“As discussed in paragraph A11, a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity. For the audit plan, standard audit programs or checklists (see paragraph A19) drawn up on the assumption</i>
				Referral to other ISAs Proportionality	

⁶ ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

Paragraph	Section	Title	Extant	Grouping	Comments
			the audit plan, and the reasons for such changes. (Ref: Para. A18–A21)		<i>of few relevant control activities, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments."</i>
ISA 300 Paragraph 13	Requirements	Additional Considerations in Initial Audit Engagements	<p>The auditor shall undertake the following activities prior to starting an initial audit:</p> <p>(a) Performing procedures required by ISA 220 regarding the acceptance of the client relationship and the specific audit engagement;⁷ and</p> <p>(b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22)</p>	<p>Conditional</p> <p>Referral to other ISAs</p>	<p>The requirement is applicable in circumstances when an initial audit engagement is undertaken.</p> <p>ISA 300, Paragraph A22 provides further application material relevant to the Additional Considerations in Initial Audit Engagements and makes a referral to ISA 510, <i>Initial Audit Engagements—Opening Balances</i>.</p>

⁷ ISA 220, paragraphs 12–13