

STATEMENT OF AUDITING STANDARDS
200
PLANNING

*(Effective for audits of financial statements for periods beginning before 15 December 2004)**

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* HKSA 300 "Planning an Audit of Financial Statements" is effective for audits of financial statements for periods beginning on or after 15 December 2004.

STATEMENT OF AUDITING STANDARDS 200 PLANNING

*Statements of Auditing Standards (SASs) are to be read in the light of SAS 010 "The scope and authority of auditing pronouncements". In particular, they contain basic principles and essential procedures, (auditing standards), indicated by paragraphs in **bold italic type**, with which auditors are required to comply in the conduct of any audit including those of companies applying section 141D of the Companies Ordinance. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying auditing standards.*

Introduction

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on planning an audit of financial statements. This SAS is framed in the context of recurring audits. In a first audit, auditors may need to extend the planning process beyond the matters discussed herein.
2. ***Auditors should plan the audit work so that the audit will be performed in an effective manner. (SAS 200.1)***
3. "Planning" means developing both a general strategy and a detailed approach for the expected nature, timing and extent of the audit. Auditors plan to perform the audit in an efficient and timely manner.
4. Auditors formulate the general audit strategy in an overall audit plan, which sets the direction for the audit and provides guidance for the development of the audit programme. The audit programme sets out the detailed procedures required to implement the strategy.

Planning the work

5. Adequate planning of the audit work, which takes place before detailed audit work begins, helps to ensure that appropriate attention is devoted to important areas of the audit, that potential problems are identified and that the work is completed expeditiously. Planning also assists in proper assignment of work to assistants and in coordination of work done by other auditors and experts.
6. The extent of planning varies according to the size of the entity, the complexity of the audit and the auditors' experience with the entity and knowledge of the business. For example, on some small audits planning may be carried out at a meeting with the directors or management of the entity or when the entity's records become available to the auditors for audit.
7. An understanding of the nature and scope of the work they are to carry out and, as far as practicable of the entity's affairs, is necessary for members of the audit team before they commence work on the audit.
8. Obtaining knowledge of the business is an important part of planning the work. The auditors' knowledge of the business assists in the identification of events, transactions and practices which may have a material effect on the financial statements.
9. Auditors may wish to discuss elements of the overall audit plan and certain audit procedures with the entity's directors, management and staff to improve the effectiveness and efficiency of the audit and to coordinate audit procedures with work of the entity's personnel. The overall audit plan and the audit programme, however, remain the auditors' responsibility.

The overall audit plan

10. *Auditors should develop and document an overall audit plan describing the expected scope and conduct of the audit. (SAS 200.2)*
11. While the record of the overall audit plan needs to be sufficiently detailed to guide the development of the audit programme, its precise form and content vary depending on the size of the entity, the complexity of the audit, the need for members of the audit team to be briefed and the specific methodology and technology used by the auditors.
12. Matters to be considered by the auditors in developing the overall audit plan are set out below.
 - a. Knowledge of the business
 - i. General economic factors, industry conditions and consumer and social issues affecting the entity's business.
 - ii. Important characteristics of the entity, its business, its financial performance and its reporting requirements including changes since the date of the previous audit.
 - iii. The general level of competence of directors and management.
 - b. Understanding the accounting and internal control systems
 - i. The accounting policies adopted by the entity and changes in those policies.
 - ii. The effect of new accounting or auditing pronouncements.
 - iii. The commitment of directors and management to designing and maintaining adequate internal control.
 - iv. The auditors' cumulative knowledge of the accounting and internal control systems and the relative emphasis expected to be placed on tests of control and substantive procedures.
 - c. Risk and materiality
 - i. The expected assessments of inherent and control risks and the identification of significant audit areas.
 - ii. The setting of materiality levels for audit purposes.
 - iii. The possibility of material misstatement, including the experience of past periods, or fraud.
 - iv. The identification of complex accounting areas including those involving significant accounting estimates.
 - d. Nature, timing and extent of procedures
 - i. The relative emphasis expected to be placed on tests of control and substantive procedures.
 - ii. The effect of use of information technology by the entity or by the auditors.
 - iii. The work of any internal audit function and its expected effect on external audit procedures.

- iv. Procedures which need to be carried out at or before the period end.
 - v. The timing of significant phases of the preparation of financial statements.
 - e. Co-ordination, direction, supervision and review
 - i. The involvement of other auditors in the audit of components, for example, subsidiaries, branches and divisions.
 - ii. The involvement of, and communication with, experts.
 - iii. The number of locations.
 - iv. Staffing requirements.
 - f. Engagement objectives and reporting requirements
 - i. The terms of the engagement and any statutory responsibilities.
 - ii. The nature and timing of reports or other communications with the entity that are expected under the engagement.
 - g. Other matters
 - i. The possibility that the going concern assumption may not be appropriate.
 - ii. Conditions requiring special attention, such as the existence of related parties or material pending litigation.
13. The overall audit plan is communicated to members of the audit team as appropriate before they commence work on the audit.

The audit programme

14. *Auditors should develop and document an audit programme setting out the nature, timing and extent of planned audit procedures required to implement the overall audit plan. (SAS 200.3)*
15. The audit programme serves as a set of instructions to assistants involved in the audit and as a means to control and record the proper execution of the work. The audit programme may also contain the audit objectives for each area and a time budget in which hours are budgeted for the various audit areas or procedures.
16. In preparing the audit programme, the auditors consider the specific assessments of inherent and control risks and the required level of assurance to be provided by substantive procedures. The auditors also consider the timing of tests of controls and substantive procedures, the coordination of any assistance expected from the entity, the availability and experience of assistants and the involvement of other auditors or experts. The other matters noted in paragraph 12 may also need to be considered in more detail during the development of the audit programme.

Changes to the overall audit plan and audit programme

17. *The overall audit plan and the audit programme should be revised as necessary during the course of the audit. (SAS 200.4)*
18. Changes to the overall audit plan or planned audit procedures may be required because of changes in conditions or unexpected results of audit procedures. The reasons for significant changes would be recorded.

Compliance with International Standards on Auditing

19. Compliance with the auditing standards contained in this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 300 "Planning".

Effective date

20. This SAS is effective for audits of financial statements for periods beginning before 15 December 2004.