

**(Mark-up from December 2006 IAASB Meeting)**

**PROPOSED INTERNATIONAL STANDARD ON AUDITING 620  
USING THE WORK OF AN AUDITOR'S EXPERT AS AUDIT EVIDENCE  
(REVISED AND REDRAFTED)**

(Effective for audits of financial statements for periods beginning on or after [date])\*

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<div style="border: 1px solid black; padding: 5px;"> International Standard on Auditing (ISA) 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert as Audit Evidence," should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," which sets out the authority of ISAs. </div>	

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\* See footnote 3.

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of the work of a party possessing expertise in a field other than accounting or auditing,<sup>1</sup> who is employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.
2. Management may employ or engage an expert to enable it to prepare the financial statements. This ISA does not deal with the auditor's consideration of the work of experts employed or engaged by management.<sup>2</sup>

### *Responsibilities of the Auditor ~~when Using the Work of an Auditor's Expert~~*

3. The auditor is solely responsible for the auditor's opinion. Even when the auditor uses evidence provided by the work of an auditor's expert. Provided the auditor concludes that the evidence provided by the auditor's expert is adequate for the purposes of the audit, the auditor remains solely responsible for the auditor's report. However, having exercised professional skepticism and followed the requirements of this ISA, the auditor is not required to substitute the auditor's own conclusions in the expert's field for those of the expert, and therefore may accept the auditor's that expert's findings and conclusions in the expert's field of expertise. (Ref: Para. A1-A3A4)

### Effective Date

- ~~3-4.~~ This ISA is effective for audits of financial statements for periods beginning on or after ~~December 15, 2008~~[date].<sup>3</sup>

### Objectives

5. The ~~auditor's~~ objectives of the auditor ~~are to determine:~~
  - (a) To determine ~~When~~ it is necessary to use the work of ~~an auditor's expert~~ a party

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<sup>1</sup> Although this ISA does not deal with experts in accounting or auditing, parts of this ISA may nonetheless be helpful when using the work of such an expert. For example, the guidance on evaluating the capabilities, competence and objectivity of the auditor's expert may be of assistance when the auditor is considering engaging a specialist in, e.g., accounting for complex financial instruments.

<sup>2</sup> When the entity employs or engages an expert, the work of that expert is treated as the work of management for the purpose of the audit. See ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment," and ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks," respectively, regarding situations in which the auditor has not employed or engaged an auditor's expert, and the work of an expert employed or engaged by management is significant to:

(a) The auditor's understanding of the entity; or

(b) A material class of transactions, account balance or disclosure in the preparation of the financial statements.

<sup>3</sup> This date will not be earlier than December 15, 2008.

possessing expertise in a field other than accounting or auditing to obtain sufficient appropriate audit evidence; and,

- (b) When it is necessary to use such work is used,:
  - (i) To select and direct a party with appropriate capabilities, competence and objectivity; and
  - (ii) To evaluate whether evidence provided by that workparty is adequate for the purposes of the audit.

## Definitions

56. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Auditor's expert – ~~An individual or firm~~ A party,<sup>4</sup> possessing expertise in a field other than accounting or auditing, who is employed or engaged by the auditor to enable the auditor to obtain sufficient appropriate audit evidence.
- (b) Expertise – ~~Special~~ Specialized skills, knowledge and ~~practical~~ experience in a particular field ~~beyond those needed for general business.~~

## Requirements

### Determining the Need for an Auditor's Expert

~~6-7.~~ When preparing the financial statements involves expertise in a field other than accounting or auditing is important in obtaining sufficient appropriate audit evidence, the auditor shall determine whether the auditor engagement team has adequate expertise in that field to obtain sufficient appropriate audit evidence. If, When the auditor auditor determines that the engagement team does not have adequate expertise, the auditor shall employ or engage an auditor's expert. (Ref: Para. A4A5-A9)

### ~~When the Auditor Uses the Work of an Auditor's Expert~~

- ~~7.~~ In determining the nature, timing and extent of the audit procedures required by paragraphs 8-11, the auditor shall consider matters including (Ref: Para. A10):
- ~~(a) The assessed risks of material misstatement in the matter to which the auditor's expert's work relates;~~
  - ~~(b) The importance of the expert's work to the auditor's conclusions on the matter to which that work relates;~~
  - ~~(c) The quality control policies and procedures to which the expert is subject. (Ref: Para. A11-A14)~~

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<sup>4</sup> This ISA has been drafted in terms of the auditor employing or engaging an expert who is an individual, but is also applicable, adapted as necessary in the circumstances, when the auditor employs or engages a party that is not an individual, e.g., a firm that employs experts.

## **Selecting and Directing an Auditor's Expert**

### **Evaluating the Capabilities, Competence and Objectivity of the Auditor's Expert**

108. ~~When planning to use evidence provided by an auditor's expert, the auditor shall evaluate the auditor's expert's capabilities, competence and objectivity before selecting the expert, and shall consider the results of this evaluation when determining the nature, timing and extent of the audit procedures required to evaluate the adequacy of the work of the auditor's expert for the purposes of the audit.~~ (Ref: Para. A10-A18-A23)

### **Obtaining an Understanding of the Field of Expertise of the Auditor's Expert**

89. The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to (a) determine the nature, scope and objectives of the auditor's expert's work for the purposes of the audit, and to (b) design and perform appropriate audit procedures to evaluate the adequacy of ~~that work~~ the evidence provided by the expert for the purposes of the audit. (Ref: Para. A15-A19-A21)

### **Direction and Communication**

910. The auditor shall ~~determine~~ provide direction to the auditor's expert, including determining the nature, scope and objectives of the auditor's expert's work, and the nature, timing and extent of communication required between the auditor and the expert. ~~them~~. The auditor shall ~~provide adequate instructions to communicate with~~ the auditor's expert to enable the expert to understand the objectives of the expert's work ~~in for the context~~ purposes of the audit, and the respective responsibilities of the auditor and the expert. (Ref: Para. A16-A17-A22-A24)

## **Evaluating the Adequacy of the Evidence Provided by the Auditor's Expert**

11. The auditor shall evaluate the adequacy of the ~~work of~~ evidence provided by the auditor's expert for the purposes of the audit, including the relevance and reasonableness of the expert's findings and its consistency with other audit evidence. ~~If the evidence provided by the auditor's expert is not adequate for the purposes of the audit, or the auditor's expert's findings are not consistent with other audit evidence, the auditor shall take appropriate action to resolve the inadequacy or inconsistency, and, when applicable:~~ (Ref: Para. A25-A253-A33)
- (b) ~~The completeness, relevance and accuracy of source data used by the expert.~~ (Ref: Para. A31)

## **Reference to an Auditor's Expert in the Auditor's Report**

12. ~~The~~ Unless required by law or regulation, the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion ~~unless required to do so by law or regulation~~. If the auditor is such reference is required by law or regulation to refer to the work of an expert in an auditor's report containing an unmodified opinion, the report shall clearly indicate that ~~such~~ the reference does not alter the auditor's opinion as stated in the report, or diminish the auditor's sole responsibility for the report.
13. If the auditor mentions the work of an auditor's expert in an auditor's report containing a

modified opinion, that report shall clearly indicate that such reference does not diminish the auditor's sole responsibility for the report. (Ref: Para. ~~A32-33~~A34-35)

## **Documentation**

- ~~14. When expertise other than accounting is important in assessing or responding to a significant risk, and:~~
- ~~(b) An auditor's expert is not used: the auditor shall document how the auditor determined that an auditor's expert was not needed; or~~
  - ~~(a) An auditor's expert is used: the auditor shall include the objective of the auditor's expert's work as part of the overall audit strategy or audit plan.~~
- ~~15. When involvement of an auditor's expert is important in assessing or responding to a significant risk, the auditor shall document how the auditor satisfied the requirements of paragraphs 7-11 above.~~

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## **Application and Other Explanatory Material**

### **Introduction** (Ref: Para. 1-23)

- A1. ~~The auditor is required by~~ ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding The Entity And Its Environment" requires the auditor to obtain an understanding of various aspects of the entity. This includes obtaining an understanding of (a) the classes of transactions, account balances, and disclosures to be expected in the entity's financial statements, and (b) the entity's information system, including the financial reporting process used to prepare the financial statements. Some assertions relating to a class of transactions, account balance, or disclosure, and some aspects of the process ~~used~~ that management uses to prepare the entity's financial statements may ~~involve~~ require expertise in a field other than accounting. Examples of when management may require such expertise ~~in order to~~ prepare the financial statements include:
- Determining the value of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art and antiques.
  - Determining ~~insurance~~ liabilities associated with insurance contracts or employee benefit plans.
  - Determining quantities and values of oil and gas reserves.
  - Determining environmental liabilities, and site clean-up costs.
  - Interpreting contracts, laws and regulations.
  - Designing and implementing complex aspects of information systems.
  - Analyzing complex or unusual tax compliance issues.
  - ~~Assessing the ability of an entity to continue as a going concern.~~

- A2. ~~When management requires expertise in a field other than accounting, the inherent risk of material misstatement may be higher than if no such expertise were required.~~The risks of material misstatement may be increased when expertise in a field other than accounting is required for management to prepare the financial statements. For example:
- Estimating environmental liabilities and site clean-up costs may be highly subjective and involve a ~~wide range of measurement~~high degree of estimation uncertainty.
  - Underlying transactions or processes used in preparing the financial statements may be technically complex, e.g., transactions involving sophisticated financial instruments, or complex information technology processes.
- A3. Management may possess the required expertise in a field other than accounting, or may employ or engage an expert. The risks of material misstatement are affected by the level of management's knowledge of the field of expertise, and the design and operating effectiveness of internal controls related to the application of that expertise, including the internal controls that relate to the work of an expert employed or engaged by management, if any.

Nature, timing and extent of the auditor's procedures

- A4. The nature, timing and extent of the auditor's procedures regarding the work of an auditor's expert will vary depending on the circumstances. For example, when the evidence to be provided by the auditor's expert relates to a significant and judgmental matter, and is the primary source of audit evidence in relation to that matter, more rigorous and extensive procedures may be appropriate than when the evidence to be provided by the expert relates to a less significant or less judgmental matter for which there is corroborating evidence available from other sources.

**Determining the Need for an Auditor's Expert** (Ref: Para. 67)

- ~~A8~~A5. ~~At~~The IFAC "Code of Ethics for Professional Accountants" requires a professional accountant in public practice to agree to provide only those services that the professional accountant in public practice is competent to perform. In addition, [proposed] ISA 220 (Redrafted), "Quality Control for Audits of Historical Financial Information" requires the engagement partner to be satisfied that the engagement team collectively has the appropriate capabilities and competence to perform the audit engagement in accordance with professional standards and regulatory and legal requirements. Considering at the start of the audit, the auditor may be aware of whether the involvement of an auditor's expert may be necessary, and if so when and to what extent, assists the auditor in planning the audit in accordance with ISA 300 (Redrafted), "Planning an Audit of Financial Statements," which requires the auditor to ascertain the nature, timing and extent of resources necessary to perform the engagement. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about whether to employ or engage an auditor's expert.
- ~~A4~~A6. An auditor's knowledge, professional skills and practical experience enable the auditor to be competent regarding a range of subject matters, including business matters in general. However, an auditor does not ordinarily have the expertise of a person trained and experienced in another profession or specialized occupation.

~~A5A7.~~ Nonetheless, in some cases ~~the an auditor who is not an expert in the relevant field~~ may be able to obtain a sufficient understanding of ~~the relevant that field of expertise to~~ perform the audit without employing or engaging an auditor's expert. This understanding may be obtained through, e.g.:

- ~~Specialization or other experience~~ Education, experience or professional development in the particular field of expertise.
- Experience in auditing entities that require the particular field of expertise in the preparation of their financial statements<sup>5</sup>.
- ~~Education, professional development or qualifications of the auditor in a field other than accounting and auditing.~~
- ~~Reading a report prepared by, or otherwise reviewing the work of, an expert employed or engaged by the entity.~~
- ~~Discussion with an expert employed or engaged by the entity.~~
- ~~Discussion with other auditors who have performed similar engagements.~~
- ~~Reading specialist literature dealing with the field.~~

~~A6A8.~~ Alternatively, the auditor may determine that it is necessary to employ or engage an auditor's expert to ~~obtain~~ assist in obtaining sufficient appropriate audit evidence. In addition to the ~~auditor's engagement team's~~ understanding of the relevant field of expertise, considerations when deciding whether an auditor's expert is needed may include:

- Whether management ~~have has~~ employed or engaged ~~an expert~~. ~~If management has used an expert in preparing the financial statements, it.~~ This may be an indication that an auditor's expert will also be needed.
- ~~The apparent objectivity of any relevant expert employed or engaged by the entity.~~
- The complexity of the matter to which the expert's work relates.
- The materiality of the matter, and the risks of misstatement.
- The expected nature, timing and extent of procedures to respond to identified risks.
- The availability of alternative sources of evidence.

~~A7A9.~~ An auditor's expert may be needed to assist the auditor in:

- Obtaining an understanding of the entity and its environment, including its internal control, ~~and its environment.~~
- Identifying and assessing the risks of material misstatement.

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<sup>5</sup> ~~See International Education Standard IES-8, "Competence Requirements for Audit Professionals," Section 4: Competence Required for Audit Professionals in Specific Environments and Industries.~~

- Determining and implementing overall responses to assessed risks at the financial statement level.
- Designing and performing further audit procedures to respond to assessed risks at the assertion level.
- ~~The auditor's evaluation of the~~ Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

~~When the Auditor Determines an Auditor's Expert is Not Needed~~

~~A9. When preparation of the financial statements requires expertise in a field other than accounting, and the auditor determines that an auditor's expert is not needed, the matters noted in this ISA under the heading "When the Auditor Uses the Work of an Auditor's Expert" may assist the auditor in determining the nature, timing and extent of audit procedures to obtain an understanding of that field, and to evaluate relevant work performed by an expert employed or engaged by the entity, if any, or performed by management.~~

**~~When the Auditor Uses the Work of an Auditor's Expert~~**

**Selecting and Directing an Auditor's Expert**

*Evaluating the Capabilities, Competence and Objectivity of the Auditor's Expert* (Ref: Para. 408)

~~A18~~A10. The more capable, competent and objective an auditor's expert is, the more reliable the audit evidence provided by that expert is likely to be. The nature, timing and extent of the auditor's procedures to evaluate the capabilities, competence and objectivity of the auditor's expert will vary depending on such matters as the importance of that evidence to the auditor's conclusions, and the assessed risks of material misstatement in the matter to which the expert's work relates.

A11. Information regarding the capabilities, competence and objectivity of the auditor's expert may come from a variety of sources, such as:

- Quality control policies and procedures (see paragraphs ~~A11-A14~~A16-A18).
- Personal knowledge of and experience with the auditor's expert's work.
- Knowledge of the auditor's expert's educational qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Discussions with other auditors, with colleagues in the auditor's expert's field, or with others who are familiar with the expert's work.
- Published papers or books authored by the auditor's expert.

~~A19~~A12. ~~It may be relevant w~~When evaluating the capabilities, competence and objectivity of the auditor's expert, it may be relevant to consider the expert's compliance with any relevant technical performance standards or other professional or industry requirements, e.g., (a) ethical standards and other membership requirements of a professional body or industry association, (b) accreditation standards of a licensing body, or (c) requirements imposed by



law or regulation. Consideration of any independence requirements that apply to the auditor's expert ~~may be~~ is particularly relevant when evaluating the expert's objectivity.

#### Capabilities and Competence

~~A20~~A13. In addition to capabilities and competence in a particular field, other matters that may be relevant to evaluating the capabilities and competence of the auditor's expert include:

- The relevance of the auditor's expert's capabilities and competence to the matter for which the expert will provide audit evidence, including ~~consideration of whether the expert's field has any~~ areas of specialty within it. the expert's field. For example, ~~an~~ a particular actuary may be a specialist in general property and casualty insurance ~~and, but~~ have comparatively little expertise regarding pension calculations.
- The auditor's expert's capabilities and competence with respect to relevant accounting and auditing requirements.

#### Objectivity

~~A21~~A14. Objectivity relates to the effects that bias, conflict of *interest* or the influence of others, ~~and the effects these~~ may have on the professional or business judgment of the auditor's expert. A broad range of circumstances may ~~potentially~~ threaten objectivity, e.g., self-interest threats, advocacy threats, familiarity threats, and intimidation threats. Safeguards that may eliminate or reduce such threats can be created either by external structures (e.g., the auditor's expert's profession, legislation or regulation), or by the auditor's expert's work environment (e.g., quality control policies and procedures).

~~A22~~A15. Obtaining a written representation from the auditor's expert that details any known interests or relationships with the entity, such as:

- Financial interests.
- Business relationships.
- Employment – past, present ~~and/or~~ future.
- Family and personal relationships,

may assist the auditor to evaluate the auditor's expert's objectivity. Similarly, obtaining a representation from the entity that details any known interests or relationships with the auditor's expert may be of assistance.

~~A23. The less objective an auditor's expert is, the less reliable the expert's work is as audit evidence. In some cases, the auditor may conclude that the auditor's expert's objectivity is so impaired that the expert cannot be considered to be objective in the circumstances and, therefore, the auditor may need to employ or engage another expert~~

#### Quality Control (Ref: Para. 7(e))

A16. An auditor's expert may be subject to quality control policies and procedures implemented by an accounting firm in accordance with [proposed] ISA 220 (Redrafted) or [proposed] ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of

Historical Financial Information, and Other Assurance and Related Services Engagements.”

A17. An auditor's expert may also be subject to other systems of quality control, e.g., systems implemented by a firm of experts or a professional body to which the expert belongs, or imposed by a regulatory body.

A18. When the auditor's expert is subject to a system of quality control, an understanding of that system, and review of the information rendered by it, may provide the auditor with an important source of audit evidence concerning such matters as:

- Capabilities and competence, through recruitment and formal training programs.
- Independence, through accumulating and communicating relevant independence information.
- Adherence to regulatory and legal requirements, through monitoring processes.

~~A11—Quality control policies and procedures may provide the auditor with an important source of audit evidence concerning the auditor's expert.~~

~~A12—Relevant quality control policies and procedures implemented at the engagement level may relate to such matters as:~~

- ~~•Compliance with independence and other ethical requirements.~~
- ~~•The capabilities, competence, and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements.~~
- ~~•Direction and supervision, and review of documentation.~~

~~A13—Relevant quality control policies and procedures implemented at the firm level may relate to such matters as:~~

- ~~•The capabilities and competence of the expert through recruitment and formal training programs.~~
- ~~•Independence through accumulation and communication of relevant independence information.~~
- ~~•Adherence to regulatory and legal requirements through monitoring processes.~~

~~A14.—Where the expert is subject to relevant quality control policies and procedures implemented at the engagement level in accordance with ISA 220, “Quality Control for Audits of Historical Financial Information,” or at the firm level in accordance with ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,” the nature, timing and extent of audit procedures with respect to the expert's work may be modified accordingly. It may also be appropriate to modify the nature, timing and extent of audit procedures with respect to the expert's work when the auditor has evidence of the effective operation of other relevant quality control policies and procedures to which the auditor's expert is subject, e.g., policies~~

and procedures implemented by a firm of consulting actuaries to which the expert belongs.

*Obtaining an Understanding of the Field of Expertise of the Auditor's Expert* (Ref: Para. 89)

A19. The nature, timing and extent of the auditor's procedures to obtain an understanding of the auditor's expert's field of expertise will vary depending on such matters as the importance of that evidence to the auditor's conclusions and the assessed risks of material misstatement in the matter to which expert's work relates.

~~A15~~A20. The auditor may obtain an understanding of the field of expertise of the auditor's expert ~~by~~through, e.g.:

- Experience in auditing entities that require the particular field of expertise in the preparation of their financial statements.
- Education or professional development in the particular field of expertise.
- ~~r~~Reviewing the auditor's expert's report, or otherwise reviewing that expert's work.
- ~~d~~Discussion with the auditor's expert or with other experts,
- ~~d~~Discussion with other auditors who have performed similar engagements,
- ~~r~~Reading specialist literature dealing with the auditor's expert's field,~~or,~~
- ~~a~~Attending relevant seminars.

~~A21.~~ Relevant aspects of considerations include whether the auditor's understanding of the auditor's expert's field may include is sufficient to:

- ~~Understand the nature of the expert's work e.g., whether the work to be performed by an environmental remediation liability expert is a baseline risk assessment or a feasibility study for environmental remediation liabilities.~~
- The relevance of the auditor's expert's capabilities and competence to the matter for which the expert will provide audit evidence, including, e.g., whether the expert's field has areas of specialty within it (see paragraph A13).
- ~~Identify and, to the extent necessary, understand any~~ Relevant professional or other standards:
- ~~Identify, and, to the extent necessary, understand any relevant regulatory or legal requirements, if any.~~
- ~~Identify and, to the extent necessary, understand~~ Relevant methodologies and assumptions, and whether they are accepted within the auditor's expert's field.
- ~~Identify the~~ The nature of internal and external data or information the auditor's expert uses~~d or may use.~~
- ~~Identify any restrictions on the expert's access to entity personnel, records, or files.~~
- ~~Consider the~~ The effect of any reservation or limitation on the auditor's expert's findings.
- ~~Determine when~~ The timing of the auditor's expert's work will be completed.

- ~~Determine whether~~ Whether the auditor's expert's report or other form of findings contains or will contain all of the information the auditor needs.

~~Objectives, Direction and Communication and Instructions~~ (Ref: Para. 910)

~~A16~~A22. The nature, scope and objectives of the auditor's expert's work will vary considerably with the circumstances, as will the nature, timing and extent of communication. For example, ~~where the expert's work when the evidence provided by the auditor's expert is important to the auditor's conclusions relating to a significant risk, the auditor may require both (a) a formal written report at the conclusion of the auditor's expert's work, and (b) oral reports as the expert's work progresses. Such oral reports may help to ensure that the nature, timing and extent of planned procedures are properly integrated with other work on the audit, and perhaps the auditor's expert's objectives;~~ are modified as needed.

~~A17~~A23. Agreement on the nature, scope and objectives of work to be performed by the ~~auditor's external~~ an expert engaged by the auditor may be included in an engagement letter between the firm and the auditor's expert. The Appendix contains a list of matters that the auditor may include in such an agreement. The auditor may also agree to inform the auditor's expert of the auditor's conclusions concerning the ~~expert's work~~ evidence provided by the expert.

~~A24.~~ When the auditor's expert is a member of the engagement team, the quality control policies and procedures to which the expert is subject in accordance with [proposed] ISA 220 (Redrafted) with respect to such matters as direction and supervision, and review of documentation, may include particular policies and procedures in relation to the scope and objectives of the expert's work, and communication with the expert.

### **Evaluating the Adequacy of the Evidence Provided by the Auditor's Expert** (Ref: Para. 11)

~~The Nature, Timing and Extent of Audit Procedures~~ (Ref: Para. 7)

~~A10~~A25. The nature, timing and extent of the auditor's procedures to evaluate the adequacy of the evidence provided by the auditor's expert for the purposes of the audit will vary depending on such matters as:

- The results of other procedures performed by the auditor, e.g., the auditor's evaluation of the auditor's expert's capabilities, competence and objectivity.
- The assessed risks of material misstatement in the matter to which the auditor's expert's work relates.
- The importance of the evidence provided by the auditor's expert to the auditor's conclusions on the matter to which the expert's work relates.
- The quality control policies and procedures to which the auditor's expert is subject, if any, with respect to such matters as direction and supervision, and review of documentation.
- The auditor's familiarity with the auditor's expert's field of expertise. For example, the less familiar the auditor is with the field of expertise of the auditor's expert, the more likely it is that the nature of the auditor's procedures will be weighted towards emphasis

the auditor is likely to place on evaluating the expert's capabilities, competence and objectivity. Also, evaluation of the evaluating the auditor's expert's findings is more likely to be performed using inquiry and analytical procedures than procedures such as reperformance.

- The nature of the work performed by the auditor's expert. For example, when the auditor's expert's work relates to an accounting estimate developed by management, the auditor's procedures may be directed to considering whether the expert has properly reviewed the source data, assumptions and methods used by management. However, when the auditor's expert develops an independent estimate for comparison with an estimate developed by management, the auditor's procedures may be directed to considering the appropriateness of the source data, assumptions and methods used by the expert.

### Evaluating the Expert's Work

#### *The Findings of the Auditor's Expert* (Ref: Para. 11)

~~A24~~A26. Factors that may be relevant when considering the report findings of the auditor's expert, whether in a report or other form of findings if there is no report, may include whether they are:

- Presented in a manner that is consistent with any standards of the auditor's expert's profession or industry.
- Logically presented and clearly expressed, including reference to the objectives determined by the auditor, the scope of the work performed and standards applied.
- Neutral in tone (for example, avoiding unduly laudatory or critical comments).
- ~~Refer~~In relation to the auditor's objectives.
- ~~Consistent with the results of any review of the expert's working papers.~~
- ~~Cover the~~ appropriate period and take into account subsequent events.
- Subject to any reservation, limitation or restriction on use, and, if so, whether this has implications for the auditor.

~~A25~~A27. In addition to considering the report of the auditor's expert, or other form of's findings if there is no report, specific procedures that may be appropriate to evaluate the expert's work in some circumstances evidence provided by that expert's may include:

- Detailed inquiries of the auditor's expert, management or others with a particular knowledge of the matter.
- Corroborative procedures, such as:
  - Observing the auditor's expert's work.
  - Examining documentary evidence the auditor's expert obtains provides.
  - Examining published data, such as statistical reports from reputable, authoritative

sources.

- Confirming with third parties, such as regulators, ~~concerning the results of~~ their examinations.
- Performing detailed analytical procedures.
- Reperforming calculations.
- Reviewing the auditor's expert's working papers.
- Discussion with another expert. ~~In rare cases, it may be necessary for the auditor to engage a second expert to corroborate or contradict the findings of the auditor's initial expert. A second expert may be needed when, e.g.:~~
  - ~~The risks of significant error in the initial expert's work are exceptionally high.~~
  - ~~The auditor believes the initial expert's work may have been inadequate, or subject to bias.~~
  - ~~The findings of the expert conflict with other, apparently reliable, audit evidence.~~
  - ~~The auditor needs to reperform aspects of the initial expert's work.~~
  - ~~The auditor needs to review the initial expert's working papers, and they are highly technical.~~
  - ~~The initial expert and the auditor disagree on the expert's assumptions, methods, or findings.~~

*The Auditor's Expert's Assumptions and Methods* (Ref: Para. 11(a))

~~A26~~A28. [Proposed] ISA 540-545<sup>6</sup>, (Revised and Redrafted), "Auditing Accounting Estimates, Including Those Measured at Fair Value Accounting Estimates, and Related Disclosures" ~~contains discussion of~~ discusses the assumptions and methods used by management in making accounting estimates. ~~While~~Although that discussion is written in the context of the auditor obtaining sufficient appropriate audit evidence regarding management's assumptions and methods, it may also ~~be of assistance to~~assist auditors when considering assumptions and methods used by an auditor's expert.

*Assumptions*

~~A27~~A29. The nature of any assumptions used by the auditor's expert will vary with the nature and complexity of the work ~~for which the expert is engaged,~~ and the methods used by the expert. For example, ~~where~~when the auditor's expert uses a discounted cash flows method in relation to the value of securities, ~~there will be~~ assumptions ~~about~~will include the level and

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<sup>6</sup> ~~DRAFTING NOTE: Actual reference will depend on the status of the Estimates project when this document is approved for exposure.~~

timing of cash flows, and the discount rate(s) applied.

~~A28. An assumption may be considered significant if it involves judgment about the outcome of future conditions, transactions or events, where reasonable variation in the assumption would materially affect the matter to which the auditor's expert relates.~~

#### Methods

~~A29.~~ A30. When considering the reasonableness of methods used by the auditor's expert, relevant factors may include:

- Whether the methods are accepted within the auditor's expert's field.
- Whether the auditor's expert considered all available evidence, and ~~if evidence contained~~ how any internal inconsistencies, ~~how they~~ were resolved.
- Whether the auditor's expert double-checked computations, particularly ~~if they were~~ those that are not self-checking by nature.
- The qualifications and competence of personnel used by the auditor's expert, and whether they understood the nature, scope and objectives of the work. Also, if the auditor's expert in turn engaged or used other experts, whether the primary expert applied standards similar to those an auditor applies in using an auditor's expert.
- Whether the auditor's expert's procedures covered the entire period of the audit.
- Sampling techniques, if any, used by the auditor's expert, e.g. whether they are statistically valid and reflect standard practice in the relevant industry ~~concerned~~.
- Whether, and if so, how errors or deviations encountered by the auditor's expert in conducting tests, were extrapolated over the entire population in reaching a conclusion.
- The auditor's expert's application of skepticism in considering data from persons with a vested interest in the expert's findings.

#### Alternative approach

~~A30. When the auditor's expert uses modeling or other techniques, the auditor may perform analytical procedures to develop an independent estimate, e.g., by using an auditor-developed model, to corroborate the expert's findings. When developing an independent estimate the auditor may use the expert's assumptions, or may develop assumptions independently. If the auditor develops assumptions independently, it may nevertheless be necessary to obtain an understanding of the expert's assumptions and use that understanding to (a) ensure the completeness of the expert's assumptions, and (b) evaluate any significant difference between the auditor's estimate and the expert's estimate.~~

#### Source Data Used by the Auditor's Expert (Ref: Para. 10(b))

A31. If the auditor's expert has tested the source data, evaluating that data's completeness, relevance and accuracy by inquiry of the expert, or supervising or reviewing the expert's tests, ~~may be sufficient for the auditor to evaluate the data's completeness, relevance and~~

~~accuracy.~~ If the auditor's expert has not tested the source data, the auditor may find it necessary to test it. The auditor's tests may include procedures such as (a) verifying the origin of the data, (b) mathematically recomputing the inputs, and (c) reviewing the data for internal consistency, including, ~~where~~ when applicable, whether the data is consistent with management's intent and ability to carry out specific courses of action.

*Inadequate Evidence Provided by the Auditor's Expert, and Inconsistent Findings*

A32. The evidence provided by the auditor's expert may not be adequate for the purposes of the audit when judged in the context of the objectives the auditor determined for the expert's work. Also, the auditor's expert's findings may not be consistent with other audit evidence. The auditor may resolve such matters through additional audit procedures, e.g., discussions with the entity and the auditor's expert, or by dealing with it in the auditor's report.

A33. In extremely rare cases, the auditor may need to employ or engage a second auditor's expert to corroborate or challenge the findings of the auditor's initial expert. This may be the case when, e.g., the auditor believes the auditor's initial expert's work has been subject to undue bias, or the auditor disagrees with the assumptions, methods, or findings of the auditor's initial expert.

**Reference to ~~the~~ Auditor's Expert in the Auditor's Report** (Ref: Para. 12-13)

~~A32~~A34. In some cases, law or regulation may require a reference to the work of an auditor's expert, e.g., for the ~~purpose~~purposes of transparency in the public sector. In such cases, it is important that the reference is not ~~mis~~understood to have arisen from (a) a misstatement of the financial statements, (b) an inability to obtain sufficient appropriate audit evidence, or (c) a division of responsibility.

~~A33~~A35. It may be appropriate in some circumstances to refer to the work of the auditor's expert in an auditor's report containing a modified opinion ~~in order~~ to explain the nature of the modification. In such circumstances, the auditor may need ~~to obtain~~ the permission of the auditor's expert before making such a reference. If permission is refused, the auditor may need to seek legal advice.



## **Considerations for Agreement Between the Auditor and an Auditor's ~~External~~ Expert**

~~This~~The following list is not exhaustive. ~~The need~~Whether to include particular matters in the list depends on the circumstances of the engagement.

### **Audit considerations**

- The nature, scope and objective of the auditor's engagement
- The nature, scope and objectives of the auditor's expert's involvement.
- Materiality and risk considerations concerning the matter to which the expert's work relates.
- Relevant auditing and accounting concepts and standards, and relevant regulatory or legal requirements.
- The auditor's intended use of the auditor's expert's findings, and any restrictions on that use.
- The nature and extent of the auditor's review of the auditor's expert's work and findings.

### **The auditor's expert's responsibilities**

- ~~Objectivity~~Independence requirements, including any financial ~~and~~ or other relationships with the entity.
- The confidentiality requirements of management and the auditor.
- The auditor's expert's responsibility to perform ~~their~~ work with due skill and care.
- The auditor's expert's competence and capacity ~~of the expert~~ to perform the work.
- The expectation that the auditor's expert will use all knowledge the expert has that is relevant to the audit or, if not, will inform the auditor.
- Any restriction on the auditor's expert's use of the auditor's report ~~by the expert~~.

### **Nature, timing and extent of the auditor's expert's work**

- Any professional or other standards the auditor's expert will follow.
- The methods and assumptions the auditor's expert will use, and their authority.
- The nature of source data to be used by the auditor's expert, who is responsible for it, whether its completeness, relevance and accuracy will be tested, and, if so, by whom.
- The effective date of, or, where when applicable, the testing period for, the subject matter of the auditor's expert's work, and requirements regarding subsequent events.

### **Communications and reporting**

- Methods and frequency of communications, including how the auditor's expert's findings will be reported (written report, oral report, ongoing input to the engagement team, etc.).
- ~~The date~~When the auditor's expert will complete the work and report ~~the~~ findings to the auditor.
- The auditor's expert's responsibility to communicate promptly any potential reservation or limitation on the expert's findings.
- The auditor's expert's responsibility to communicate promptly instances in which the entity restricts the expert's access to entity personnel, records, or files.
- The auditor's expert's responsibility to communicate to the auditor all information the expert believes may be relevant to the audit.

#### **Other matters**

- The auditor's expert's access to the entity's files.
- Budgets and fees.
- The auditor's expert's insurance coverage.
- Dispute resolution processes.
- Ownership and control of working papers during and after the engagement, including any file retention requirements.

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