

PROPOSED INTERNATIONAL STANDARD ON AUDITING 620
(REVISED AND REDRAFTED) (MARK-UP)
USING THE WORK OF AN AUDITOR’S EXPERT

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

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Proposed Conforming Amendments

[Proposed] ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence”

^{*} See footnote [41](#).

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's use of the work of ~~an auditor's expert. As defined in paragraph 5, an auditor's expert is a party⁺ a person or organization~~ possessing expertise in a field other than accounting or auditing, ~~which is~~ employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.
2. This ISA does not deal with the auditor's consultation with specialists in a particular area of accounting or auditing², or with the auditor's consideration of the work of experts employed or engaged by the entity³. ~~However, as discussed in paragraphs A6-A7, when the entity employs or engages an expert, that is relevant to the auditor's consideration of whether to use an auditor's expert. When the entity employs or engages an expert, the work of that expert is part of the preparation of the financial statements. (Ref: Para. A1-A2)~~
23. ~~Provided-If~~ the auditor ~~using the work of an auditor's expert~~, having complied with the requirements of this ISA, concludes that the work of ~~an auditor's~~~~that~~ expert is adequate for the purposes of the audit, the auditor may accept that expert's findings and conclusions in the expert's field. Nonetheless, the auditor is responsible for the audit opinion, and that responsibility is not diminished by the auditor's use of the work of an auditor's expert.

Effective Date

34. This ISA is effective for audits of financial statements for periods beginning on or after [date].⁴

Objectives

45. The objectives of the auditor are:
 - (a) To determine whether it is necessary to use the work of an auditor's expert; and
 - (b) ~~When-If~~ it is necessary to use the work of an auditor's expert, to ~~determine whether that obtain from that expert~~ work ~~that~~ is adequate for the purposes of the audit.

Definitions

56. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Expert – A ~~party~~~~person or organization~~⁵, possessing expertise in a field other than accounting or auditing.

⁺ ~~An expert may be an individual or an organisation of experts~~

² See ~~[proposed]~~ ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements" for guidance regarding consultation.

³ See ~~[proposed]~~ ISA 500 (Redrafted), "Considering the Relevance and Reliability of Audit Evidence" for guidance regarding experts employed or engaged by the entity.

⁴ This date will not be earlier than December 15, 2008.

(b) Expertise – Specialized skills, knowledge and experience in a particular field.

[Drafting note: the Explanatory Memorandum will include a discussion of the definition of engagement team, and mention that it appears in ISA 220 & ISQC 1]

(c) Auditor's expert – An expert employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.

(d) Auditor's external expert – An auditor's expert who is engaged, not employed, by the auditor. An auditor's external expert is not a member of the engagement team.

Requirements

Determining the Need for an Auditor's Expert

67. If expertise in a field other than accounting or auditing is required to obtain sufficient appropriate audit evidence, the auditor shall determine whether it is necessary to use the work of an auditor's expert. (Ref: Para. A1-A93-A8)

Nature, Timing and Extent of Audit Procedures

108. ~~[REPOSITIONED; PREVIOUSLY PARA 10]~~ The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9-13 of this ISA regarding the work of the auditor's expert will vary depending on the circumstances. In determining the nature, timing and extent of audit those procedures, matters considered by the auditor shall include:

- (a) The nature of the matter to which ~~the~~ that expert's work relates;
- (b) The risks of material misstatement in the matter to which ~~the~~ that expert's work relates;
- (c) The ~~importance-significance~~ of the ~~that~~ that expert's work in the context of the audit; to the auditor's conclusions; and
- (d) The auditor's knowledge of and experience with that expert's work, including ~~Whether~~ whether the expert is a member of the engagement team and; therefore; subject to the auditor's firm's quality control policies and procedures. (Ref: Para. A23A10)

The Capabilities, Competence and Objectivity of the Auditor's Expert

79. If the auditor ~~intends~~ has determined that it is necessary to use the work of an auditor's expert, the auditor shall evaluate whether ~~the prospective auditor's~~ that expert has the necessary capabilities, competence and objectivity for the purposes of the audit. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity. (Ref: Para. A11-A179-A15)

⁵ ~~An expert may be an individual or an organisation of experts.~~

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

810. The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:
- (a) Determine the nature, scope and objectives of ~~the~~that expert's work for the purposes of the audit; and
 - (b) Evaluate the adequacy of ~~that~~the expert's work for the purposes of the audit. (Ref: Para. ~~A18-A196-A17~~)

Agreement with the Auditor's Expert

911. The auditor shall agree the following matters with the auditor's expert ~~matters that include~~: (Ref: Para. ~~A18-A20-A22~~)
- (a) The nature, scope and objectives of ~~the~~that expert's work;
 - (b) The respective responsibilities of the auditor and ~~the~~that expert; and (Ref: Para. ~~A234~~)
 - (c) The nature, timing and extent of communication between the auditor and ~~the~~that expert, including the form of any report to be provided by ~~the~~that expert. (Ref: Para. ~~A242~~)

~~10. [THIS PARA REPOSITIONED AS NEW PARA 8]~~

Evaluating the Adequacy of the Auditor's Expert's Work

- ~~11~~12. The auditor shall evaluate the adequacy of the auditor's expert's work for the purposes of the audit, including: (Ref: Para. ~~A254~~)
- (a) The relevance and reasonableness of ~~the~~that expert's findings, and their consistency with other audit evidence; and (Ref: Para. ~~A25-A26-A27~~)
 - (b) ~~Where they are~~If significant to the auditor's use of ~~the~~that expert's work, ~~the~~at auditor's expert's:
 - (i) Assumptions,
 - (ii) Methods, ~~and~~or
 - (iii) Source data. (Ref: Para. ~~A287-A31~~)

~~12~~13. If the work of the auditor's expert is not adequate for the purposes of the audit, the auditor shall:

- (a) Agree with ~~the~~that expert on the nature and extent of further work to be performed by ~~the~~that expert; or
- (b) Perform further audit procedures appropriate to the circumstances. (Ref: Para. ~~A32~~)

Reference to the Auditor's Expert in the Auditor's Report

~~13~~14. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation ~~to refer to~~ do so. the work of an auditor's external expert. If such reference is required by law or regulation, the report shall

indicate that the reference does not ~~alter the auditor's opinion as stated in the report, or diminish the auditor's sole responsibility for the audit opinion report.~~ (Ref: Para. A33)

1415. If reference to the work of an auditor's expert is relevant to an understanding of a modification to the auditor's opinion, ~~and the auditor refers to that work in the auditor's report,~~ the auditor's report shall indicate that such reference does not diminish the auditor's responsibility for ~~the that opinion report.~~ (Ref: Para. A33-A34)

Application and Other Explanatory Material

Determining the Need for an Auditor's Expert (Ref: Para. 7)

Introduction (Ref: Para. 1)

- A1. ~~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. These include the classes of transactions, account balances, and disclosures to be expected in the entity's financial statements, and the entity's information system, including the financial reporting process used to prepare the financial statements.~~ It may be necessary for management to have or use expertise in a field other than accounting in order to make certain assertions relating to a class of transactions, account balance, or disclosure, or to effect some aspects of the process used to prepare the entity's financial statements. Examples of when it may be necessary for management to use such expertise include when management needs to:
- ~~Determining~~ the value of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art and antiques.
 - ~~Determining~~ 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.
- A2. The risks of material misstatement may increase when expertise in a field other than accounting is needed for management to prepare the financial statements, e.g., because this may indicate some complexity, or because management may not possess knowledge of the field of expertise. If in preparing the financial statements management does not possess the ~~required necessary~~ expertise ~~in the relevant field,~~ management may employ or engage an expert to address those risks. ~~The design and operating effectiveness of internal~~ Relevant controls ~~s-related to the application of relevant expertise,~~ including controls that relate to the

work of an expert employed or engaged by management, if any, may also ~~affect~~ reduce the risks of material misstatement.

Determining the Need for an Auditor's Expert (Ref: Para. 6)

- A3. If management's preparation of the financial statements involves the use of expertise in a field other than accounting, there is a risk that the auditor who is skilled in accounting and auditing may not possess the necessary expertise to audit those financial statements. The IFAC "Code of Ethics for Professional Accountants" (the Code) requires a professional accountant in public practice to agree to provide only those services that the professional accountant is competent to perform. In addition, [proposed] ISA 220⁶ (Redrafted), "Quality Control for an Audit of Financial Statements Engagements" requires the engagement partner to be satisfied that the engagement team, ~~together with~~ and any auditor's external experts, collectively ~~have~~ has the appropriate capabilities and competence to perform the audit engagement in accordance with professional standards and regulatory and legal requirements, and to enable an auditor's report that is appropriate in the circumstances to be issued. Further, ISA 300 (Redrafted), "Planning an Audit of Financial Statements," requires the auditor to ascertain the nature, timing and extent of resources necessary to perform the engagement. Giving c~~o~~n~~si~~de~~ra~~ti~~ong at the start of the audit to whether the involvement of an auditor's expert may be necessary, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about ~~whether to use the work of~~ involvement of an auditor's expert.~~~~~~~~~~
- A4. An auditor's expert may be employed by the auditor or may be engaged by the auditor for the purposes of the audit. Experts employed by the auditor include partners and staff. Such experts are subject to the firm's quality control policies and procedures, and when performing audit procedures are part of the engagement team.
- A45. An auditor's knowledge, professional skills and practical experience enable the auditor to be competent in 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.
- A56. Nonetheless, an auditor who is not an expert in a relevant field may be able to obtain a sufficient understanding of that field to perform the audit without ~~employing or engaging~~ an auditor's expert. This understanding may be obtained through, e.g.:
- Experience in auditing entities that require ~~the particular field of~~ such expertise in the preparation of their financial statements.
 - Education, experience or professional development ~~in the particular field of expertise.~~
 - Discussion with experts.
 - Discussion with auditors who have performed similar engagements.

~~⁶ ALL FINAL WORDING TO BE CHECKED AGAINST ISA 220 and ISQC 1~~

- Reading specialist literature.

- Attending relevant seminars.

A67. In some cases, ~~Alternatively,~~ the auditor may determine that it is necessary to use an auditor's expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether an auditor's expert is needed may include:

- Whether management has used an expert in preparing the financial statements (see paragraph A87).
- The nature and complexity of the matter.
- 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 audit evidence.

A78. When management has used an expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may be influenced by such factors as:

- The nature, scope and objectives of the management's expert's work
- Whether the management's expert is employed by the entity, or is an unrelated party engaged by it to provide relevant services.
- The auditor's assessment of the objectivity of the management's expert, including the extent to which management can exercise control or influence over the work of that expert.
- ~~The extent to which management can exercise control or influence over the work of the expert.~~
- The auditor's assessment of the management's expert's capabilities and competence.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements
- Any controls within the entity over the management's expert's work.

[Proposed] ISA 500 (Redrafted), "Considering the Relevance and Reliability of Audit Evidence" includes requirements and guidance regarding the effect of the capabilities, competence and objectivity of experts employed or engaged by the entity on the reliability of audit evidence.

A89. An auditor's expert may be needed to assist the auditor in one or more of the following:

- Obtaining an understanding of the entity and its environment, including its internal control.
- Identifying and assessing the risks of material misstatement.
- 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.
- Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

Nature, Timing and Extent of Audit Procedures (Ref: Para. ~~810~~)

~~A2310. [THIS PARA AND ITS HEADING HAVE BEEN MOVED FROM PARA A23]~~ The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this ISA regarding the work of an auditor's expert will vary depending on the circumstances. For example, the following factors may suggest the need for more extensive procedures or procedures of a different nature ~~in applying the requirements of this ISA:~~

- The work of the auditor's expert relates to a significant matter that involves subjective and complex judgments.
- The auditor has not previously used the work of the auditor's expert, and has no prior experience of ~~the that~~ expert's capabilities, competence and objectivity.
- The auditor's expert is not subject to the firm's quality control policies and procedures.

The Capabilities, Competence and Objectivity of the Auditor's Expert (Ref: Para. ~~79~~)

~~A911. The more capable, competent and objective an auditor's expert is, the more reliable the work of that expert is likely to be. The capabilities, competence and objectivity of an auditor's expert are factors that significantly affect whether the work of the auditor's expert will be adequate for the purposes of the audit.~~ An auditor's expert who is a member of the engagement team is subject to quality control policies and procedures implemented in accordance with [proposed] ISA 220 (Redrafted), and [proposed] ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements." The auditor may be entitled to rely on the operation of these policies and procedures concerning aspects of such matters as:

- Capabilities and competence, through recruitment and ~~formal~~ training programs.
- Objectivity, through accumulating and communicating relevant independence information. The Code requires members of the engagement team to be independent.
- Adherence to regulatory and legal requirements, through monitoring processes.

The extent to which the auditor is entitled to rely on the operation of such policies and procedures influences the audit procedures, if any, carried out to evaluate these matters as discussed in paragraphs ~~A12-A170-A15~~. In any case, as required by [proposed] ISA 220 (Redrafted), the auditor remains responsible for establishing that the engagement team, ~~together with and~~ any auditor's external experts, collectively have the appropriate capabilities, competence and time to perform the audit engagement, and for the direction, supervision and performance of the audit.

~~A102.~~ Information regarding the capabilities, competence and objectivity of an auditor's expert may come from a variety of sources, such as:

- Personal knowledge of and experience with ~~the~~that expert's work.
 - Discussions with other auditors or others who are familiar with ~~the~~that expert's work.
 - Knowledge of ~~the~~that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
 - Published papers or books written by ~~the auditor's~~that expert.
- A143. When considering the capabilities, competence and objectivity of the auditor's expert, it may be relevant to consider whether ~~the~~that expert's work is subject to technical performance standards or other professional or industry requirements, e.g., ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- A124. ~~In addition to general capabilities and competence in a particular field,~~Other matters that may be relevant include:
- The relevance of the auditor's expert's capabilities and competence to the matter for which ~~the~~that expert's work will be used, including any areas of specialty within ~~the~~that expert's field. For example, a particular actuary may ~~be a specialist~~be a specialist in property and casualty insurance, but have ~~comparatively little~~limited expertise regarding pension calculations.
 - The auditor's expert's capabilities and competence with respect to relevant accounting and auditing requirements, including experience in assisting with the preparation or audit of financial statements, and the use and knowledge of assumptions and methods consistent with the applicable financial reporting framework.
- A135. Objectivity relates to the effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the auditor's expert. A broad range of circumstances may threaten objectivity, e.g., self-interest threats, advocacy threats, familiarity threats, self-review 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), or may be audit engagement specific safeguards. The evaluation of threats to objectivity and the need for safeguards may depend upon the role of the auditor's external expert and the significance of the expert's work in the context of the audit. The more important the auditor's expert's work is to the auditor, the more objective the auditor's expert needs to be. There may be some situations in which safeguards cannot reduce ~~them~~threats to an acceptable level, e.g., if the auditor's expert has played a significant role in preparing information that is being audited, the auditor may not be able to use the work of that expert. If the auditor's external expert is an organization or a member of an organization, threats to objectivity may relate not only to the individuals performing work on the engagement but to other members of the organization as well.
- A146. When evaluating the objectivity of an auditor's external expert, it may be relevant to discuss with that expert any circumstances that may create threats to the expert's objectivity, and any relevant safeguards, including any professional requirements that apply to the expert; and to

evaluate whether the safeguards are adequate to reduce threats to an acceptable level. ~~It may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about whether there are any known~~ Circumstances creating threats may include interests or relationships with the entity, such as:

- Financial interests.
- Loans and guarantees.
- Close Bbusiness relationships.
- Family and personal relationships.
- Employment relationships – past, present or future.
- Temporary staff assignments.
- Serving as an officer or director.
- Provision of non-assurance services.

It may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about such matters.

A157. Inquiring by the auditor of the entity about any known interests or relationships with the auditor's external expert may also be of assistance in identifying circumstances that may affect the auditor's that expert's objectivity.

Obtaining an Understanding of the Field of Expertise of the Auditor's Expert (Ref: Para. 810)

A168. The auditor may obtain an understanding of the auditor's expert's field of expertise through the means described in paragraph A6 or through discussion with that expert. ~~, e.g.:~~

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

A179. Aspects of the auditor's expert's field relevant to the auditor's understanding may include:

- Whether ~~the that~~ expert's field has areas of specialty within it that are relevant to the audit (see paragraph A142).
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What methodologies and assumptions are used, and whether they are generally accepted within the auditor's expert's field and appropriate for financial reporting purposes.

- The nature of internal and external data or information the auditor's expert uses.

Agreement with the Auditor's Expert (Ref: Para. [911](#))

~~A1820~~. The nature, scope and objectives of the auditor's expert's work will vary considerably with the circumstances, as will the respective responsibilities of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore important that these matters are agreed between the auditor and the auditor's expert, ~~whether both when the that~~ expert is an auditor's external auditor's expert ~~or and when the expert is~~ a member of the engagement team.

~~A1921~~. ~~In the case of~~The more significant the work of an auditor's external expert is in the context of the audit, the more likely it is that the agreement between the auditor and ~~the that~~ expert may need to be reasonably detailed and included in an engagement letter or other written form of agreement between the firm and the auditor's external expert. The Appendix contains a list of matters that the auditor may include in such an agreement.

~~A202~~. When the auditor's expert is a member of the engagement team, the established policies and procedures to which ~~the that~~ 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 ~~that~~ expert's work, the respective responsibilities of the auditor and the expert, and communication with the expert. Some of the matters included in the Appendix may also be relevant when documenting the auditor's use of such an expert's work in accordance with [proposed] ISA 230 (Redrafted), "Audit Documentation."

Respective ~~R~~esponsibilities (Ref: Para. [911](#)(b))

~~A213~~. Agreement on the respective responsibilities of the auditor and the auditor's expert may include: e.g.:

- Responsibility for such things as detailed testing of source data, ~~and communication with the entity~~.
- Access to the each other's working papers, and related confidentiality matters. When the auditor's expert is part of the engagement team, that expert's working papers form part of the audit documentation. Subject to any agreement to the contrary, auditor's external experts' working papers are their own and do not form part of the audit documentation.
- Consent for the auditor to discuss the auditor's expert's findings with the entity and others, and to include details of ~~the that~~ expert's findings in a modified auditor's report, if necessary
- Any agreement to inform the auditor's expert of the auditor's conclusions concerning the expert's work.

Communication (Ref: Para. [911](#)(c))

~~A224~~. Effective two-way communication helps to ensure that the nature, timing and extent of planned procedures to be performed by the auditor's expert are properly integrated with other

work on the audit, and that the auditor's expert's objectives are modified as needed during the course of the audit. For example, when the work of the auditor's expert is importantrelates to the auditor's conclusions relating to regarding a significant risk, both a formal written report at the conclusion of the that auditor's expert's work, and oral reports as the work progresses, may be appropriate. Identification of specific persons within the engagement team with responsibility to liaise with the auditor's expert, and procedures for communication between that expert and the entity, may assist timely and effective two-way communication, particularly on larger engagements.

A23. [MOVED TO BECOME PARA A10]

Evaluating the Adequacy of the Auditor's Expert's Work (Ref: Para. 124)

A245. The auditor's consideration of the auditor's expert's capabilities, competence and objectivity, the auditor's familiarity with the auditor's expert's field of expertise, and the nature of the work performed by the auditor's expert may affect the nature, timing and extent of audit procedures to evaluate the adequacy of the that auditor's expert's work for the purposes of the audit.

The Findings of the Auditor's Expert (Ref: Para. 412(a))

A256. Specific procedures to evaluate the adequacy of the auditor's expert's work for the purposes of the audit may include:

- 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 provides.
 - Examining published data, such as statistical reports from reputable, authoritative sources.
 - Confirming with third parties, such as regulators, the results of their examinations.
 - Performing detailed analytical procedures.
 - Reperforming calculations.
 - Reviewing how any inconsistencies in evidence considered by the auditor's expert were resolved.
- Reviewing the auditor's expert's working papers.
- Discussion with another expert with relevant expertise.
- Reviewing-Discussing the auditor's expert's report with management.

A267. Factors that may be relevant when considering the relevance and reasonableness of the findings of the auditor's expert, whether in a report or other form, may include whether they are:

- Presented in a manner that is consistent with any standards of the auditor's expert's profession or industry.
- Clearly expressed, including reference to the objectives agreed ~~to~~ with the auditor, the scope of the work performed and standards applied.
- Neutral in tone (for example, avoiding unduly laudatory or critical comments).
- Based on an appropriate period and take into account subsequent events, where relevant.
- Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor.

Assumptions, ~~and~~ Methods and Source Data (Ref: Para. ~~12~~(b))

Assumptions and Methods

A278. When the auditor's expert's work relates to an accounting estimate developed by management, the auditor's procedures are likely to be directed to considering whether ~~the~~ that expert has properly reviewed the assumptions and methods, including models, used by management. In other circumstances, e.g., when the auditor's expert assists in developing an auditor's point estimate or an auditor's range for comparison with management's point estimate, the assumptions and methods used by the auditor's expert may be significant to the auditor's use of that expert's work.

A289. [Proposed] ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures" discusses the assumptions and methods used by management in making accounting estimates. 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 assist the auditor when it is necessary to evaluate the auditor's expert's assumptions and methods.

Assumptions

~~A29. —The nature of any assumptions used by the auditor's expert will vary with the nature and complexity of the work and the methods used by the expert. For example, when the auditor's expert uses a discounted cash flow method in relation to the value of securities, assumptions include the amount and timing of cash flows, and the discount rate(s) applied.~~

Methods

A30. When evaluating the auditor's expert's assumptions and methods, relevant factors may include whether they are:

- ~~Whether the methods are g~~Generally accepted within the auditor's expert's field.
- ~~Whether the methods are e~~Consistent with the requirements of the applicable financial

reporting framework.

- ~~Whether the methods are c~~onsistent with those of management, and if not, what are the reason and effects of the differences.

~~•How any inconsistencies in evidence considered by the auditor's expert were resolved.~~

—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 may also be relevant.

Source Data Used by the Auditor's Expert

- A31. When an auditor's expert's work involves the use of source data that is significant to the auditor's use of ~~that~~ the expert's work, it will be necessary to test that data through procedures such as verifying the origin of the data, ~~mathematically~~ recomputing the inputs, and reviewing the data for completeness and internal consistency, including when applicable whether the data is consistent with management's intent and ability to carry out specific courses of action. In many cases, testing source data will be done by the auditor. In other cases however, e.g., when source data used by an auditor's expert is highly technical in relation to the expert's field, ~~the-that~~ expert may test the source data. If the auditor's expert has tested the source data, it may be appropriate for the auditor to evaluate that data's completeness, relevance and accuracy by inquiry of ~~the-that~~ expert, or supervision or review of ~~the-that~~ expert's tests.

Inadequate Work (Ref: Para. ~~13~~2)

- A32. If the work of the auditor's expert is not adequate for the purposes of the audit, and the auditor ~~may cannot~~ resolve the matter through the additional audit procedures required by paragraph 13, it may be necessary to express a modified audit opinion in accordance with [proposed] ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report.", e.g., ~~discussions with the entity and the auditor's expert, or through requesting the auditor's expert to take further action as appropriate in the circumstances.~~

Reference to the Auditor's Expert in the Auditor's Report (Ref: Para. 14-15)

Unmodified Opinion (Ref: Para. 13)

- A33. In some cases, law or regulation may require a reference to the work of an auditor's external expert, e.g., for the purposes of transparency in the public sector.

Modified Opinion (Ref: Para. 14)

- A34. It may be appropriate in some circumstances to refer to the auditor's expert in an auditor's report containing a modified opinion, to explain the nature of the modification. In such circumstances, the auditor may need the permission of the auditor's expert before making such a reference.

Appendix(Ref: Para. [A19A21](#))**Considerations for Agreement Between the Auditor and an Auditor's External Expert**

This appendix lists matters that may be considered by the auditor for inclusion in any agreement with an expert engaged by the auditor. The following list is illustrative and is not exhaustive; it is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA. Whether to include particular matters in the agreement depends on the circumstances of the engagement. [The list may also be of assistance in considering the matters to be included in an agreement with an auditor's expert who is a member of the engagement team.](#)

Nature, scope and objectives of the auditor's external expert's work

- [The nature and scope of the procedures to be performed by the auditor's external expert.](#)
- [The objectives of the auditor's external expert's work in the context of M](#)materiality and risk considerations concerning the matter to which the auditor's external expert's work relates.
- Any [relevant technical performance standards or other professional or industry requirements](#) ~~professional or other standards~~ the auditor's external expert will follow.
- The ~~methods and~~ [assumptions and methods](#) the auditor's external expert will use, and their authority.
- The effective date of, or when applicable the testing period for, the subject matter of the auditor's external expert's work, and requirements regarding subsequent events.

The respective responsibilities of the auditor and the auditor's external expert

- ~~The nature, scope and objective of the auditor's engagement.~~
- Relevant auditing and accounting concepts and standards, and relevant regulatory or legal requirements.
- The auditor's external expert's consent to the auditor's intended use of ~~the auditor's external~~ [that](#) expert's report, including any reference to [it](#), or disclosure of it, to others, e.g. reference to it in a modified auditor's report, if necessary, or disclosure of it to management or an audit committee.
- The nature and extent of the auditor's review of the auditor's external expert's work and findings.
- Who is responsible for testing source data to be used by the auditor's external expert.
- ~~Professional requirements~~ [Any circumstances that may create threats to the auditor's expert's objectivity](#), including any ~~known interests or financial or other~~ relationships of ~~that auditor's external~~ expert with the entity, [and any relevant safeguards, including any professional requirements that apply to that expert, and the need for objectivity.](#)
- The auditor's external expert's access to the entity's [records, files, personnel and to experts engaged by the entity.](#)

- Procedures for communication between the auditor's external expert and the entity.
- The auditor's and the auditor's external expert's access to each other's working papers.
- The confidentiality requirements of management and the auditor.
- Ownership and control of working papers during and after the engagement, including any file retention requirements.
- The auditor's external expert's responsibility to perform work with due skill and care.
- The auditor's external expert's competence and capacity to perform the work.
- The expectation that the auditor's external expert will use all knowledge ~~the~~that expert has that is relevant to the audit or, if not, will inform the auditor.
- Any restriction on the auditor's external expert's association with the auditor's report.
- Any agreement to inform the auditor's external expert of the auditor's conclusions concerning ~~the~~that expert's work

Communications and reporting

- Methods and frequency of communications, including:
 - hHow the auditor's external expert's findings will be reported (written report, oral report, ongoing input to the engagement team, etc.).
 - Identification of specific persons within the engagement team with responsibility to liaise with the auditor's external expert.
- When the auditor's external expert will complete the work and report findings to the auditor.
- The auditor's external expert's responsibility to communicate promptly any potential delay in completing the work, and any potential reservation or limitation on ~~the~~that expert's findings.
- The auditor's external expert's responsibility to communicate promptly instances in which the entity restricts ~~the~~that expert's access to records, files, personnel or experts engaged by the entity.
- The auditor's external expert's responsibility to communicate to the auditor all information ~~the~~that expert believes may be relevant to the audit, including any changes in circumstances previously communicated, e.g., any change in that expert's interests or relationships with the entity.

NOTE: THE FOLLOWING PROPOSED CONFORMING AMENDMENTS TO ISA 500 ARE NEW TO THIS VERSION OF THE DRAFT. THE REVISION MARKS SHOW PROPOSED CHANGES TO ISA 500, NOT CHANGES FROM THE PREVIOUS VERSION OF THE DRAFT

PROPOSED CONFORMING AMENDMENTS

[Proposed] ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence”

3. Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence is necessary to support that opinion and the auditor’s report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from, e.g., previous audits and a firm’s quality control procedures for client acceptance and continuance. The entity’s accounting records are an important source of audit evidence along with other sources inside and outside the entity. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management’s assertions, and any information that contradicts such assertions. (Ref: Para. A1-A3)

10. For purposes of the ISAs, the following terms have the meanings attributed below:
 - ...
 - (e) Management’s expert – a person or organization employed or engaged by the entity possessing expertise in a field other than accounting.

12. When information used by the auditor for purposes of the audit was produced by the entity, including any management’s experts, the auditor shall evaluate whether the information is sufficiently reliable for the auditor’s purposes, including as necessary in the circumstances:
 - (a) Obtaining audit evidence about the accuracy and completeness of the information;
 - (b) Evaluating whether the information is sufficiently precise or detailed for the auditor’s purposes; and
 - (c) Evaluating the capabilities, competence and objectivity of a management’s expert, if any. (Ref: Para. A28-A30)

- A23. ~~Due to the fact that t~~The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant, and whether the information was prepared by a management’s expert. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or an expert engaged by the entity may lack

objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful:

- ...

Information Produced by a Management's Expert and Used for Audit Purposes (Ref: Para. 12)

A30a. The preparation of an entity's financial statements may require expertise in areas other than accounting, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these areas in order to obtain the needed expertise to prepare the financial statements. Failing to do so when such expertise is necessary may increase the risks of material misstatement (see ISA 315 (Redrafted)). The capabilities, competence and objectivity of a management's expert, and any controls within the entity over that expert's work, are important factors in considering the reliability of any information produced by a management's expert.

A30b. Information regarding the capabilities, competence and objectivity of a management's expert may come from a variety of sources, such as:

- Personal knowledge of and experience with that expert's work.
- Discussions with others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.

A30c. When considering the capabilities, competence and objectivity of a management's expert, it may be relevant to consider whether that expert's work is subject to technical performance standards or other professional or industry requirements, e.g., ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.

A30d. Other matters that may be relevant include:

- The relevance of that expert's capabilities and competence to the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialize in property and casualty insurance, but have limited expertise regarding pension calculations.
- The expert's capabilities and competence with respect to relevant accounting requirements, including experience in assisting with the preparation of financial statements, and the use and knowledge of assumptions and methods consistent with the applicable financial reporting framework.

A30e. Objectivity relates to the effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the expert. A broad range of circumstances may threaten objectivity, e.g., self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards that may reduce such threats can be created either by external structures (e.g., the management's expert's

profession, legislation or regulation), or by the management's expert's work environment (e.g., quality control policies and procedures). Although safeguards cannot eliminate all threats to a management's expert's objectivity, the significance of threats such as intimidation threats may be less to an expert engaged by the entity than to an expert employed by the entity, and the significance of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be significant, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity regardless of any professional safeguards that might exist.

A30f. When evaluating the objectivity of an expert engaged by the entity, it may be appropriate to discuss with management and the expert any circumstances that may create threats to the expert's objectivity, and any relevant safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Circumstances creating threats may include interests or relationships with the entity, such as:

- Financial interests.
- Business relationships in addition to the engagement to provide the services that produced the information being considered by the auditor.
- Employment – past, present or future.
- Family and other personal relationships.

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