RELEVANT TO CAT QUALIFICATION PAPER 8 AND
FOUNDATIONS IN ACCOUNTANCY PAPER FAU FOUNDATIONS IN AUDIT

Using the work of an auditor's expert

ISA 300, *Planning an Audit of Financial Statements* sets out the matters that an auditor should consider, prior to the identification and assessment of the risk of material misstatements. One of these matters is the involvement of experts. ISA 500, *Audit Evidence* confirms that if the information to be used as evidence has been prepared using the work of a management's expert, then the auditor should:

- evaluate the competence, capabilities and objectivity of that expert
- obtain an understanding of the work of that expert
- evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Clearly, if the preparation of an entity's financial statement has required input from an expert, then the competence of the expert and appropriateness of the work carried out are important considerations when assessing the risk of material misstatement. ISA 500 does not refer to the work of an auditor's own expert as there is no correlation between the work of that expert and the risk of material misstatement in the financial statements.

ISA 620, *Using the Work of an Auditor's Expert* defines an auditor's expert as: 'An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.'

Auditors are experts in accounting and auditing matters, but they are not reasonably expected to be experts in any other field. However, candidates should appreciate that, in certain situations, auditors do need to employ their own expert in order to decrease the risk that material misstatement will not be detected. Such expertise may be required in relation to such matters as:

- The valuation of:
  - land and buildings
  - plant and machinery
  - jewellery
  - works of art
  - antiques
  - intangible assets – for example, patents and trademarks
  - environmental liabilities
  - site clean up costs

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- The estimation of:
  - oil reserves
  - gas reserves
  - mining reserves

- The actuarial calculation of liabilities associated with:
  - insurance contracts
  - employee benefit plans

- The interpretation of:
  - contracts
  - laws
  - regulations

- The analysis of complex or unusual tax compliance issues.

The majority of the matters listed are seldom referred to in auditing texts, and most candidates will not have come across them in real-life audit situations. However, in diverse economies, expert opinions from an array of disciplines are often required by auditors – in particular those involved in the audit of large companies (for example, banks, insurance companies and mining and exploration companies).

In this respect, candidates may wish to consider the issues faced by an auditor when auditing the reported liabilities of a company that has made a provision for costs arising as a consequence of an environmental disaster for which the company is culpable. On a more basic level, where companies own expensive jewellery, works of art or antiques – either as trading or as investment assets – auditors may need to rely on the opinion of their own experts if they do not have other sufficient appropriate evidence to support 'valuation' assertions made by management.

An auditor's expert needs to be competent, capable and objective if their services are to be deemed adequate for the audit purpose. Let's deal with each of these attributes.

- Competence – relates to the nature and level of expertise of the expert. Clearly, any expert employed should have widespread recognition of their expertise in the stated discipline.

- Capability – relates to the expert's ability to exercise that competence in the circumstance of the audit engagement. For example, the expert must have the time and resources available to perform the task in hand.

- Objectivity – relates to the possible effects that bias, conflict of interest or the influence of others may have on the judgment of the expert. If an expert has a vested interest in expressing anything other than objective opinion with regard to the subject matter, then their opinion will be of no value to the auditor.

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If an auditor's expert does not fulfil the requirement in respect of each of the above attributes, the risk of error or inaccuracy in the work carried out is increased and, therefore, the objective of minimising the risk of not detecting material misstatement may not be achieved. Consequently, the auditor's quality control procedures should ensure that internal experts (who are part of the audit engagement team) are capable, competent and objective. Where an audit firm is seeking to engage a new internal expert, or alternatively rely on the services of an external expert, information about the competence, capability and objectivity of the expert may be sought from various sources.

These include:

- personal experience with previous work of the expert
- discussion with the expert
- discussion with other auditors who are familiar with the expert's work
- knowledge of the expert's qualifications, membership of a professional body or industry association, licence to practise, or other forms of external recognition
- published papers or books written by the expert.

Candidates should appreciate that these sources of information are the same as those that an auditor may use to obtain information about the competence, capability and objectivity of a management's expert.

When evaluating the findings and conclusions of the auditor's expert for audit purposes, the auditor may carry out various procedures, including:

- inquiries of the auditor's expert
- reviewing the auditor's expert's working papers and reports
- corroborative procedures such as:
  - observing the auditor's expert's work
  - examining reputable statistical reports and other authoritative published data
  - confirming relevant matters with third parties
  - performing detailed analytical procedures, and
  - reperforming calculations
- discussion with another expert with relevant expertise
- discussing the auditor's expert's report with management.

If the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purpose and the auditor cannot resolve the matter – by either agreeing that the expert should carry out further work or by the auditor carrying out additional audit procedures as appropriate. With the permission of the expert, it may be appropriate to refer to the auditor's expert in the auditor's report. Conversely, unless there is a legal or regulatory requirement, there should not be any reference to the work of the auditor's expert in an unmodified report.

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Finally, candidates are often unsure as to whether auditors should employ their own experts to provide assurance in areas of an entity's financial statements, where the management of an entity has relied on its own expert. Simply put, auditors are free to do this. They should do so only after very careful consideration of the risk of material misstatement in the relevant area of the financial statements and scrutiny of the status and the work of the management's expert. Any decision in this regard should be influenced by the knowledge that, ultimately, the audit opinion is the sole responsibility of the auditor, and that this responsibility is not reduced by reliance on the work of a management's expert or an auditor's expert.

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