

DRAFT**PROPOSED INTERNATIONAL STANDARD ON AUDITING 620****USING THE WORK OF AN EXPERT****(Revised and Redrafted)**

(Effective for auditors' reports dated on or after [Date])

Introduction**Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with audit considerations regarding experts. When management prepares the financial statements, expertise in a field other than accounting may be needed. The need for such expertise affects the risks of material misstatement of the financial statements. Also, the auditor may need the assistance of an expert to obtain sufficient appropriate audit evidence to reduce the risk that the auditor will not detect a material misstatement in the financial statements (detection risk).
2. This ISA does not apply to using the work of:
 - (a) Experts working for third parties (i.e., experts who are neither personnel nor engaged by either the auditor or the entity) although parts of this ISA may be helpful when considering such work¹;
 - (b) Other auditors (see ISA 600, "The Audit of Group Financial Statements"); or
 - (c) Internal auditors (see ISA 610, "Considering the Work of Internal Auditing"), except when an internal auditor is used as an expert in a field other than internal auditing.
3. While the definition of "expert" excludes specialists in areas of accounting and auditing, parts of this ISA may nonetheless be helpful when the auditor uses the work of such a specialist. For example, the auditor may apply relevant aspects of this ISA when using an IT specialist to test controls in an e-commerce environment by attempting to break through the security layers of the entity's system.

Effective Date

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

¹ When using the work of a third party expert, considerations may include whether the expert's report is relevant to the circumstances of the engagement and whether it is reliable. Caution is usually warranted because: (i) the work is not specifically designed for the purpose of the audit, and (ii) there is no ongoing relationship between the expert and either the entity or the auditor.

Objective

5. The auditor's objective is to reduce the following risks to an appropriate level in the circumstances:
 - (a) The risks of material misstatement of the financial statements when management, in preparing the financial statements, either inappropriately uses the work of an expert, or does not use the work of an expert when such work is needed; and
 - (b) The risk that the auditor either inappropriately uses the work of an expert, or does not use the work of an expert when such work is needed.

Definitions

6. The following terms have the meanings attributed below:
 - (a) Expert – An individual or firm, other than a specialist in areas of accounting or auditing, possessing expertise in a particular field.
 - (b) Expertise – Skills, knowledge and practical experience.
 - (c) Auditor's expert – An expert who is either (i) a partner or staff of the auditor's firm, or of a firm that shares common quality control policies and procedures with the auditor's firm (personnel), or (ii) engaged by the auditor (an auditor's external expert).
 - (d) Engagement team – Those partners and staff of the auditor's firm, or a firm that shares common quality control policies and procedures with the auditor's firm, who are directed and supervised by the engagement partner with respect to the audit.

Requirements

7. The requirements in paragraphs 8 and 18-19 apply to all audits of financial statements. The requirements in paragraphs 9-17 apply only when preparation of the financial statements needs expertise in a field other than accounting.

Evaluating management's need for expertise in a field other than accounting

8. The auditor shall evaluate whether, and to what extent, management needs expertise in a field other than accounting to prepare the financial statements.

Identifying and Assessing the Risks of Material Misstatement

9. When identifying and assessing the risks of material misstatement, the auditor shall consider the effect of the nature, timing and extent of management's use of expertise in a field other than accounting.

Determining the Need for an Auditor's Expert

10. When planning and performing the audit, the auditor shall determine whether an auditor's expert is needed to assist in:
 - (a) Obtaining an understanding of the entity, including its internal control, and its environment;

- (b) Identifying and assessing the risks of material misstatement;
- (c) Determining and implementing overall responses to assessed risks at the financial statement level;
- (d) Designing and performing further audit procedures to respond to assessed risks at the assertion level; or
- (e) Evaluating the sufficiency and appropriateness of audit evidence obtained and forming an opinion on the financial statements.

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

11. When the auditor evaluates that management needs expertise in a field other than accounting to prepare the financial statements, but the auditor determines that an auditor's expert is not needed, the auditor shall:
- (a) Have or obtain an understanding of the field of expertise sufficient to evaluate relevant work of an expert employed or engaged by the entity, if any, and management; and
 - (b) Evaluate relevant work of an expert employed or engaged by the entity, if any, and management, including:
 - (i) The appropriateness and completeness of significant assumptions and methods, including the internal consistency of assumptions and, when applicable, the consistency of assumptions and methods with those used in prior periods;
 - (ii) The reliability of source data used; and
 - (iii) The relevance and reasonableness of findings in the light of the auditor's understanding of the entity, and of the results of other audit procedures.

Using the Work of Expert Personnel

12. When the auditor has determined that the work of an auditor's expert is needed, and the expert is a member of the engagement team, the auditor shall consider the appropriateness of the expert's work as audit evidence when complying with the requirements of ISA 220.
13. When the auditor has determined that the work of an auditor's expert is needed, and the expert is a partner or staff of the auditor's firm or a firm that shares common quality control policies and procedures with the auditor's firm, but is not a member of the engagement team, the auditor shall design and perform audit procedures to evaluate the appropriateness of the expert's work as audit evidence, taking into consideration the nature and extent of assurance provided by relevant quality control policies and procedures.

Using the Work of an Auditor's External Expert

14. When using the work of an auditor's external expert, the auditor shall obtain reasonable assurance that the expert has complied with relevant independence and other ethical requirements that apply to the expert.

15. When the auditor uses the work of an auditor's external expert, the auditor shall have or obtain a sufficient understanding of the expert's field of expertise to design and perform audit procedures to evaluate the appropriateness of the expert's work as audit evidence. Those procedures shall include:
- (a) Reviewing the report, where there is one, of the auditor's external expert;
 - (b) Making inquiries of the auditor's external expert;
 - (c) Performing relevant analytical procedures; and
 - (d) Determining whether there is a need to test the reliability of source data used by the auditor's external expert.
- Although the auditor is required to obtain an understanding of the field of expertise of the auditor's external expert, the auditor is not required to substitute the auditor's own judgment in that field for that of the expert. In the absence of evidence to the contrary, and having exercised professional skepticism and followed the requirements of this ISA, the auditor is entitled to accept the expert's judgments in the expert's field of expertise.
16. When the work of an auditor's external expert does not provide audit evidence that is critical to support the auditor's conclusions regarding a significant risk (principal evidence), the auditor shall design and perform audit procedures to evaluate the appropriateness of the expert's work as audit evidence, taking into consideration the significance of the expert's work to the auditor's conclusions. Such procedures shall include the procedures required by paragraph 15.
17. When the work of an auditor's external expert provides principal evidence, the auditor shall:
- (a) Be satisfied that there is an appropriate agreement between the auditor and the auditor's external expert on their respective roles and responsibilities;
 - (b) Evaluate the capabilities and competence of the auditor's external expert, including consideration of:
 - (i) The expert's level of expertise, and the relevance of that expertise to the audit objectives, and
 - (ii) The expert's compliance with technical standards relevant to the expert's profession.
 - (c) Evaluate the objectivity of the auditor's external expert; and
 - (d) Evaluate the work of the auditor's external expert, including:
 - (i) The appropriateness and completeness of significant assumptions and methods used by the expert, including the internal consistency of assumptions and, when applicable, the consistency of the methods and assumptions with those used in prior periods,
 - (ii) The reliability of source data used by the expert; and
 - (iii) The relevance and reasonableness of the expert's findings in the light of the auditor's understanding of the entity, and of the results of other audit procedures.

Reference to an Expert in the Auditor's Report

18. The auditor shall not refer to the work of an expert in an unmodified auditor's report unless required to do so by law or regulation. If the auditor is required by law or regulation to refer to the work of an expert in an unmodified report, the report shall clearly indicate that such reference does not alter the auditor's opinion as stated in the report, or diminish the auditor's sole responsibility for forming an opinion on the financial statements.
19. If the auditor mentions the work of an expert in a modified auditor's report, such reference shall be only in the section explaining the basis for the modification, and the report shall clearly indicate that such reference does not diminish the auditor's sole responsibility for forming an opinion on the financial statements.

Documentation

XXXXX TO BE COMPLETED XXXXX

Application Material**Evaluating management's need for expertise in a field other than accounting**

A1. The auditor is required by ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement" to obtain an understanding of various aspects of the entity. This includes an understanding of the classes of transactions, account balances, and disclosures to be expected in the entity's financial statements, and the 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 to prepare the entity's financial statements may involve expertise in a field other than accounting. Examples of when management may need such expertise in preparing the financial statements include:

- Estimating the value of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art and antiques.
- Estimating insurance liabilities.
- Estimating quantities and values of oil and gas reserves.
- Estimating 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 issues.
- Assessing the ability of an entity to continue as a going concern.

Identifying and Assessing the Risks of Material Misstatement

A2. When management needs expertise in a field other than accounting, the inherent risk of material misstatement is higher. For example:

- Estimating environmental liabilities, and site clean-up costs may be highly subjective and

involve a wide range of measurement uncertainty.

- Underlying transactions or processes used in preparing the financial statements may be technically complex, e.g., transactions involving sophisticated financial instruments, or complex IT 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.

A4. If management needs expertise in a field other than accounting in preparing the financial statements, but does not possess that expertise, and does not employ or engage an expert, this may constitute a material weakness in internal control, and may also lead to an inability to obtain sufficient appropriate audit evidence.

Determining the Need for an Auditor's Expert

A5. An auditor's training and experience enable the auditor to be reasonably knowledgeable about 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 occupation².

A6. Nonetheless, the auditor may have, or be able to obtain, a sufficient understanding of the relevant field of expertise to perform the audit without employing or engaging an auditor's expert. This understanding may be obtained through, e.g.:

- Professional training and 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 professional literature dealing with the field.
- Attending relevant seminars.

A7. Alternatively, the auditor may determine that it is necessary to employ or engage an auditor's expert. Relevant considerations when deciding whether an auditor's expert is needed, include:

- Whether management have employed or engaged an expert. If management have used an expert in preparing the financial statements, it may be an indication that an auditor's expert will be needed.

² Drafting note: wording of this paragraph to be checked against International Education Standard "Competence Requirements for Audit Professionals" when it is published.

- The auditor's level of knowledge of the field of expertise.
- The apparent objectivity of any relevant expert employed or engaged by the entity.
- The complexity of the matter.
- The materiality of the matter and risks of misstatement.
- The expected nature, timing and extent of procedures to respond to identified risks.
- The availability of alternative sources of evidence.

A8. At the start of the audit, the auditor may be aware of whether, and if so at what stage and to what extent, the involvement of an auditor's expert will be necessary. 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.

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

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

Whether to use Expert Personnel or an Auditor's External Expert

A10. An auditor's expert may be:

- (a) A partner or staff of the auditor's firm or a firm that shares common quality control policies and procedures with the auditor's firm (personnel), who is either:
 - (i) A member of the engagement team because the expert is directed and supervised by the auditor in accordance with ISA 220; or
 - (ii) Not a member of the engagement team, e.g., an expert who provides consultation to the engagement team regarding industry specific issues; or
- (b) Engaged by the auditor.

A11. Evidence provided by an expert who is a member of the engagement team may be more reliable than evidence provided by other experts because engagement team members are subject to the same quality control policies and procedures as required by ISA 220 "Quality Control for Audits of Historical Financial Information." These policies and procedures relate to such matters as:

- Compliance with ethical requirements, including the requirement for members of the engagement team to be independent.
- The capabilities, competence, and time to perform the audit engagement in accordance with professional standards and regulatory and legal requirements.
- Direction and supervision of engagement team members, and review of audit

documentation.

Engagement team members are also subject to the quality control policies and procedures required by ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,” or the quality control policies and procedures that are common to the auditor’s firm and the expert’s firm.

A12. Evidence provided by an expert who is a partner or staff of the auditor’s firm or a firm that shares common quality control policies and procedures with the auditor’s firm, who is not a member of the engagement team, e.g., an expert who provides consultation to the engagement team regarding industry specific issues, may be more reliable than evidence provided by an auditor’s external expert because of the assurance provided by:

- (a) In the case of a partner or staff of the auditor’s firm: the quality control policies and procedures required by ISQC 1; or
- (b) In the case of a partner or staff of a firm that shares common quality control policies and procedures with the auditor’s firm: those common quality control policies and procedures.

Unless information provided by the auditor’s firm, the expert’s firm or other parties suggests otherwise, the auditor is entitled to rely on relevant quality control policies and procedures in relation to, e.g., the capabilities and competence of the expert through their recruitment and formal training; independence through the firm’s accumulation and communication of relevant independence information; and adherence to regulatory and legal requirements through the firm’s monitoring process.

A13. Other relevant factors when determining whether to use personnel or an auditor’s external expert may include those mentioned in paragraph A7 of this ISA, and also:

- The availability of personnel with relevant expertise.
- The availability of auditor’s external experts with appropriate skills, knowledge and practical experience with respect to auditing.
- The apparent objectivity of available auditor’s external experts.

Using the Work of an Auditor’s External Expert

Independence and other ethical requirements

A14. Relevant independence and other ethical requirements that apply to the auditor’s external expert may be contained in the ethical standards of the expert’s profession, or in regulation. Independence comprises independence of mind, and independence in appearance. In the absence of indications to the contrary, a representation from the expert that the expert has complied with applicable independence and other relevant ethical requirements will be sufficient appropriate audit evidence of compliance.

Understanding the field of expertise of the auditor’s external expert

A15. The auditor may obtain an understanding of the field of expertise of the auditor’s external expert by, e.g., reviewing the expert’s report, discussion with the expert or with other experts, discussion with other auditors who have performed similar engagements, reading professional

literature dealing with the expert's field, or attending relevant seminars. Relevant considerations include whether the auditor's understanding is sufficient to:

- Understand the nature, objective, and scope of the expert's work e.g., whether an environmental remediation liability expert is engaged to perform a baseline risk assessment or a feasibility study for environmental remediation liabilities.
- Identify and, to the extent necessary, understand any relevant industry or professional standards.
- Identify and, to the extent necessary, understand any relevant regulatory or legal requirements.
- Identify and, to the extent necessary, understand relevant methodologies and assumptions, and whether they are accepted within the expert's field.
- Identify the internal and external data or information the expert used or will use.
- Identify any restrictions on the expert's access to entity personnel, records, or files.
- Consider the effect of any reservation or limitation on the expert's findings.
- Determine when the expert will complete their work.
- Determine whether the expert's report or other form of findings contains or will contain all of the information the auditor needs.

Quality Control Procedures Applied to the Work of the Auditor's External Expert

A16. In many cases, the auditor may work closely with the auditor's external expert. For example:

- (a) The expert may be involved in planning decisions and discussion among the engagement team about the susceptibility of the entity's financial statements to material misstatement,
- (b) The expert's work may be integrated with the auditor's working papers and reviewed accordingly, and
- (c) Communications between the expert and members of the engagement team may be frequent.

Where the nature of the expert's working relationship with the auditor is such that the expert's work is subject to particular quality control policies and procedures as applied to the work of engagement team members, this may provide the auditor with an important source of evidence concerning the work of the expert.

A17. In some cases, the auditor's external expert works completely at arm's length from the auditor, taking specific instruction and providing findings, frequently in the form of a written report. Although the auditor may have access if needed, in such cases the expert's working papers are often retained by the expert, and only the expert's report is included in the audit documentation and reviewed accordingly.

Principal Evidence

A18. The significance of the work an auditor's external expert as audit evidence supporting the

auditor's conclusions is relevant in determining the nature, timing and extent of the auditor's procedures to be applied to that work. In some cases, the expert's work will provide audit evidence that is critical to support the auditor's conclusions regarding a significant risk. For example, the auditor may determine that the work of an auditor's external IT expert provides principal evidence when that expert performs tests of IT controls and the auditor plans to rely extensively on the operating effectiveness of those controls. The auditor may, on the other hand, determine that the expert's work does not provide principal evidence when the auditor does not expect to rely on IT controls, and the auditor involves that same expert to assist only in obtaining an understanding of the IT function.

When the Work of an Auditor's External Expert Does Not Provide Principal Evidence

A19. When the work an auditor's external expert does not provide principal evidence, the auditor may nonetheless find considering the requirements of this ISA that would otherwise apply, helpful in determining the nature, timing and extent of procedures to be applied to the expert's work.

When the Work of an Auditor's External Expert Provides Principal Evidence

Agreement Between the Auditor and the Auditor's External Expert

A20. The scope of work to be performed by the auditor's external expert may be included in an engagement letter between the firm and the expert, and is included as part of the overall audit strategy or audit plan.

A21. The Appendix contains a list of matters that the auditor may include in an engagement letter between the firm and an auditor's external expert who is engaged by the auditor. The auditor may also agree to inform the expert of the auditor's conclusions concerning the expert's work.

Evaluating the Expert's Capabilities and Competence

A22. Sources of information regarding the capabilities and competence of the auditor's external expert may come from a variety of sources, such as:

- Personal knowledge and experience with the expert's work.
- Knowledge of the expert's educational qualifications, membership of a professional body or trade association, license to practice, or other forms of external recognition.
- Discussions with colleagues in the auditor's profession or in the expert's field, or with others who are familiar with the expert's work.
- Published papers or books authored by the expert.

A23. When the work of the auditor's external expert has been used by the firm on another engagement, some reliance on the engagement-level quality control policies and procedures implemented for that engagement may be warranted.

A24. In addition to capabilities and competence in their particular field, other matters that may be relevant to evaluating the capabilities and competence of the auditor's external expert include:

- The relevance of the expert's capabilities and competence to the assertion(s) for which the expert will provide audit evidence, including consideration of whether the expert's field has areas of specialty within it. For example, an actuary may be a specialist in general insurance and have comparatively little expertise regarding pension calculations.
- The expert's capabilities and competence with respect to accounting.
- The expert's capabilities and competence with respect to auditing. Experts do not need to understand auditing standards and techniques to the same degree as the auditor. However, experts engaged by the auditor do need to understand the objectives and nature of the audit sufficiently to understand their role and how their work will be used by the auditor.

Evaluating the Expert's Objectivity

A25. Objectivity relates to 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 external expert. The degree of objectivity that is required of an expert will vary with the circumstances in which the expert's work is used. For example, where the entity is a retail bank, it may be unreasonable and unnecessary to expect all professional staff in a large firm of experts to have no dealings with that bank when the auditor has engaged the firm for expert work. However, the auditor could reasonably expect professional staff working on the engagement to be free from such interests.

A26. A threats and safeguards approach may be used to evaluate the degree of objectivity auditor's external 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 expert's profession, legislation or regulation, or by the expert's work environment.

A27. Obtaining a representation from the auditor's external expert that discloses any known threats to objectivity (e.g., conflicts of interest or financial interests or other relationship with the entity), and safeguards that may eliminate or reduce such threats (e.g., quality control policies and procedures within the expert's firm), may assist the auditor to assess the expert's objectivity. Similarly, obtaining a written representation from the entity that details any relationships with the expert may be of assistance.

A28. The less objective an expert is, the less reliable is the expert's work as audit evidence. In some cases, the auditor may be able to compensate for reduced objectivity of an expert by modifying the nature, timing and extent of procedures in relation to the expert's work, or through other procedures. In other cases, the auditor may conclude that the 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 engage another expert.

Evaluating the Expert's Assumptions, Methods, Source Data and Findings

The expert's assumptions and methods

Assumptions

- A29. Specific assumptions will vary with the nature of the work for which the auditor's external expert is engaged, and, where applicable, the methods used by the expert. For example, where the discounted cash flows method is used to value securities, there will be assumptions about the level and timing of cash flows, and the discount rate.
- A30. 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 a financial statement assertion.
- A31. The auditor may employ techniques, such as sensitivity analysis, to identify significant assumptions. Alternatively, the auditor's level of understanding of the field of expertise of the auditor's external expert, and communication with the expert may enable the auditor to identify the significant assumptions without the use of techniques such as sensitivity analysis.
- A32. Assumptions may be developed using information from sources such as published industry information and entity historical information. They may also be set by regulation or the financial reporting framework. The auditor may identify the information supporting the choice of assumptions and evaluate the relevance, reliability, and sufficiency of that information as part of considering the appropriateness and completeness of the assumptions. In general, information from sources external to the entity is more reliable than evidence from internal sources.
- A33. To be appropriate, the assumptions ordinarily need to be realistic, supported by information that is relevant and reliable (see previous paragraph), and consistent with each other and with other factors such as:
- The general economic environment, the economic environment of the specific industry, and the entity's economic circumstances.
 - Existing observable market information.
 - The plans of the entity, including what management expects will be the outcome of specific objectives and strategies.
 - Assumptions made in prior periods, and past experience of, or previous conditions experienced by, the entity to the extent currently applicable.
 - Assumptions used by management in measurements relating to other relevant assertions.
 - The risk associated with cash flows, if applicable, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate.
 - Assumptions used by other experts in similar circumstances.

Methods

A34. When considering the appropriateness of methods used by the auditor's external expert, relevant factors may include whether the methods are accepted within the expert's field, are applicable to the entity's circumstances, and consistent with (a) the methods used in prior periods (to the extent currently applicable), (b) the methods used for determining other classes of transactions, account balances or disclosures, (c) the methods used in similar entities, and (d) the methods required by any applicable regulations or the requirements of the financial reporting framework. Other factors the auditor may consider include:

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

Alternative approach

A35. When the auditor's external expert uses modeling or other techniques, the auditor may perform analytical procedures to develop an independent estimate (for example, 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, if the auditor has evaluated those assumptions as discussed above. Instead of using the expert's assumptions, the auditor may develop assumptions independently. In that situation, the auditor may nevertheless find it 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 External Expert

A36. If the auditor's external expert has tested the accuracy, completeness, and relevance of source data, inquiry of the expert may be sufficient, or the auditor may supervise or review the expert's tests. If the 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 verifying the origin of the data, mathematically recomputing the inputs, and reviewing the data for internal consistency,

including, where applicable, whether the data is consistent with management's intent and ability to carry out specific courses of action.

The Findings of Auditor's External Expert's

A37. Factors that may be relevant when considering the report of the auditor's external expert, 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 expert's profession.
- Logically presented and clearly expressed, including reference to the scope of the work performed and standards applied.
- Neutral in tone (for example, avoiding unduly laudatory or critical comments).
- Refer 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, the implications for the auditor.

Additional procedures

A38. Additional procedures that may be appropriate in some circumstances include, e.g.:

- More detailed inquiries of the expert, or inquiries of management, others in the entity with a particular knowledge of the matter, or others outside the entity with an understanding of the expert's field of expertise;
- Corroborative procedures, such as:
 - Observing the expert's work.
 - Examining documentary evidence the expert obtains.
 - Examining published data, such as statistical reports from reputable, authoritative sources.
 - Confirming with third parties, such as regulators, concerning their examinations.
 - Performing more detailed analytical procedures.
 - Reperforming calculations.
- Reviewing the expert's working papers.
- Using a second expert. In rare cases, it may be necessary for the auditor to use a second expert to corroborate or refute the findings of an 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.

Reference to an Expert in the Auditor's Report

A39. In some cases, law or regulation may require a reference to the work of an expert, e.g., for the purpose of transparency in the public sector. In such cases, it is important that the reference is not misunderstood to have arisen from a misstatement of the financial statements, an inability to obtain sufficient appropriate audit evidence, or a division of responsibility.

A40. It may be appropriate in some circumstances to refer to the work of the expert in a modified auditor's report in order to explain the nature of the modification. In such circumstances, the auditor may need to obtain the permission of the expert before making such a reference. If permission is refused, the auditor may need to seek legal advice.

Appendix

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

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

Audit considerations

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

The expert's responsibilities

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

Nature, timing and extent of the expert's work

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

Communications and reporting

- Methods and frequency of communications, including how the expert's findings will be reported (written report, oral report, ongoing input to the engagement team, etc.).

- The date the expert will complete the work and report the findings to the auditor.
- The expert's responsibility to communicate promptly any potential reservation or limitation on the expert's findings.
- The expert's responsibility to communicate promptly instances in which the entity restricts the expert's access to entity personnel, records, or files.
- The expert's responsibility to communicate to the auditor all information the expert believes may be relevant to the audit.

Other matters

- The expert's access to the entity's files.
- Budgets and fees.
- The 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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