INTERNATIONAL STANDARD ON AUDITING 620
(REVISED AND REDRAFTED)
USING THE WORK OF AN AUDITOR’S EXPERT
(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

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Appendix: Considerations for Agreement Between the Auditor and an Auditor’s External Expert

International Standard on Auditing (ISA) 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert” should be read in conjunction with ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”
Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s responsibilities regarding the use of an individual or organization’s work in a field of expertise other than accounting or auditing, when that individual or organization is employed or engaged by the auditor to assist the auditor for the purposes of the audit.

2. This ISA does not deal with the auditor’s use of the work of an individual or organization with expertise in a specialized area of accounting or auditing, or with the work of management’s experts employed or engaged by the entity.

The Auditor’s Responsibility for the Audit Opinion

3. The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not diminished by the auditor’s use of the work of an auditor’s expert. Nonetheless, if the auditor using the work of an auditor’s expert, having followed this ISA, concludes that the work of that expert is adequate for the auditor’s purposes of the audit, the auditor may accept that expert’s findings and conclusions in the expert’s field as relevant and reliable audit evidence.

Effective Date

4. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objectives

5. The objectives of the auditor are:

   (a) To determine whether to use the work of an auditor’s expert; and

   (b) If using the work of an auditor’s expert, to determine whether that work is adequate for the auditor’s purposes of the audit.

Definitions [Issue A]

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

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(b) Expert—An individual or organization, possessing expertise in a particular field. An expert may be either a management’s expert, or an auditor’s expert.

(da) Auditor’s expert—An individual or organization possessing expertise expert employed or engaged by the auditor whose work 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. (Ref: Para. A1-A5)

(i) 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 assurance team or the engagement team.

(ii) Auditor’s internal expert—An auditor’s expert who is employed, not engaged, by the auditor; that is, partners and staff, including temporary staff, and auditor’s experts who are employed by a network firm with common quality control policies and procedures. An auditor’s internal expert is a member of the assurance team (and therefore subject to quality control policies and procedures in accordance with ISQC 1), and, if that auditor’s internal expert performs audit procedures on the engagement, is also a member of the engagement team (and therefore subject to quality control policies and procedures in accordance with ISA 220).

(ab) Expertise—Skills, knowledge and experience in a particular field.

(c) Management’s expert—An individual or organization possessing expertise expert whose work in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Requirements

Determining the Need for an Auditor’s Expert

7. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor’s expert. (Ref: Para. A6-A11-A8)

Nature, Timing and Extent of Audit Procedures

8. The nature, timing and extent of the auditor’s procedures with respect to the requirements in paragraphs 9-13 and 16(b) of this ISA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A129)

(a) The nature of the matter to which that expert’s work relates;

(b) The risks of material misstatement in the matter to which that expert’s work relates;

(c) The significance of that expert’s work in the context of the audit;
(d) The auditor’s knowledge of and experience with previous work performed by that expert; and

(e) Whether the expert is subject to the auditor’s firm’s In the case of an internal expert, the nature and extent of relevant quality control policies and procedures.

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

9. The auditor shall evaluate whether the auditor’s expert has the necessary competence, capabilities and objectivity for the auditor’s 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. A13-A210-A17)

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

10. The auditor shall obtain a sufficient understanding of the field of expertise of the auditor’s expert to enable the auditor to: (Ref: Para. A22-A23)

(a) Determine the nature, scope and objectives of that expert’s work for the auditor’s purposes of the audit; and

(b) Evaluate the adequacy of that work for the auditor’s purposes of the audit. (Ref: Para. A18-A19)

Agreement with the Auditor’s Expert

11. The auditor shall agree, in writing when appropriate, on the following matters with the auditor’s expert: (Ref: Para. A24-A26)

(a) The nature, scope and objectives of that expert’s work; (Ref: Para. A27)

(b) The respective roles and responsibilities of the auditor and that expert, including, for example, the responsibility of the auditor’s expert to respect the confidentiality of information; and (Ref: Para. A28-A29)

(c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert. (Ref: Para. A30)

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

12. The auditor shall evaluate the adequacy of the auditor’s expert’s work for the auditor’s purposes of the audit, including: (Ref: Para. A31)

(a) The relevance and reasonableness of that expert’s findings or conclusions, and their consistency with other audit evidence; (Ref: Para. A32-A327-A28)

(b) If significant to the auditor’s use of that expert’s work involves use of significant assumptions and methods, the relevance and reasonableness of those expert’s assumptions and methods, including models where applicable; and (Ref: Para. A34-A3629-A31)
(c) If significant to the auditor’s use of that expert’s work involves the use of source data that is significant to that expert’s work, the relevance, completeness, and accuracy of that source data used by the expert. (Ref: Para. A37-A38)

13. If the auditor concludes that the work of the auditor’s expert is not adequate for the auditor’s purposes of the audit, the auditor shall: (Ref: Para. A39)

(a) Agree with that expert on the nature and extent of further work to be performed by that expert; or

(b) Perform further audit procedures appropriate to the circumstances. (Ref: Para. A34)

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

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 do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor’s report that the reference does not diminish the auditor’s responsibility for the audit opinion. (Ref: Para. A40)

15. If the auditor references to the work of an auditor’s expert is relevant to an understanding of a modification to the in an auditor’s report containing a modified opinion, the auditor shall indicate in the auditor’s report that such reference does not diminish the auditor’s responsibility for that opinion. (Ref: Para. A41)

Documentation [Issue C2]

16. Where the agreement required by paragraph 11 of this ISA is:

(a) In writing, the auditor shall retain or refer to a copy of the written agreement as part of the audit documentation; or (Ref: Para. A42)

(b) Not in writing, the auditor shall document the matters agreed to. (Ref: Para. A43-A44)

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Application and Other Explanatory Material

Definitions

Expertise Auditor’s Expert (Ref: Para. 6(d4))

A1. Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:

- The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, and assets acquired and liabilities assumed in business combinations and conducting asset impairment reviews.

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

- The estimation of oil and gas reserves.
- The valuation of environmental liabilities, and site clean-up costs.
- The interpretation of contracts, laws and regulations.
- The analysis of complex or unusual tax compliance issues.

A2.4.1 In many cases, distinguishing between expertise in accounting or auditing, and expertise in another field, will be straightforward, even where this involves a specialized area of accounting or auditing. For example, an individual with expertise in applying methods of accounting for deferred income tax implications of taxation can be often be clearly distinguished from an expert in taxation law. The former is not an expert for the purposes of this ISA as this constitutes accounting expertise; the latter is an expert for the purposes of this ISA as this constitutes legal expertise, and therefore applying the requirements of this ISA are not necessary regarding the work of such an expert. Similar distinctions may also be able to be made in other areas, for example, between expertise in methods of accounting for financial instruments, and expertise in complex modeling for the purpose of valuing financial instruments. In some cases, however, particularly those involving an emerging area of accounting or auditing expertise, distinguishing between specialized areas of accounting or auditing, and expertise in another field, will be a matter of professional judgment. Applicable professional rules and standards regarding education and competency requirements for accountants and auditors may assist the auditor in exercising that judgment.

A1.2 Where an individual or organization has expertise in accounting or auditing, as well as in another field, this ISA applies only in relation to the auditor’s use of the expert’s work in that other field.

A3. An auditor’s internal expert may be a partner or staff, including temporary staff, of the auditor’s firm, and therefore subject to the quality control policies and procedures of that firm in accordance with [proposed] ISQC 1 (Redrafted). Alternatively, an auditor’s internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality control policies and procedures with the auditor’s firm.

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1. As noted in footnote 1, however, this ISA may be of assistance in implementing quality control policies and procedures when the auditor uses the work of an individual or organization possessing expertise in a specialized area of accounting or auditing.

2. For example, International Education Standard 8, “Competence Requirements for Audit Professionals” may be of assistance.

3. It should be noted, however, that if such an auditor’s expert performs audit procedures using accounting/auditing expertise, then that expert is a member of the engagement team and is subject to ISA 220 and ISQC 1, even if that expert is an external auditor’s expert.

In either case, if the auditor’s internal expert is performing audit procedures on the engagement, that expert is a member of the engagement team and subject to quality control policies and procedures in accordance with [proposed] ISA 220. If, on the other hand, the auditor’s internal expert is consulted only, that expert is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with [proposed] ISA 220.

A4. An auditor’s external expert is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with [proposed] ISQC 1 or [proposed] ISA 220.

Expert (Ref: Para. 6(b))

A5.1.3 It is necessary to apply judgment when considering how the requirements of this ISA are affected by the fact that an auditor’s expert may be either an individual or an organization. For example, when evaluating the competence, capabilities, and objectivity of an auditor’s expert, it may be that the expert is an organization the auditor has previously used, but the auditor has no prior experience of the individual expert assigned by the organization for the particular engagement; or it may be the reverse, i.e., the auditor may be familiar with the work of an individual expert but not with the organization that expert has joined. In either case both the personal attributes of the individual and the managerial attributes of the organization (such as quality control systems the organization implements) may be relevant to the auditor’s evaluation.

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

A6. 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, including tests of control or substantive procedures.
- Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

A7. 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. for example, because this may indicate some complexity, or because management may not possess

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8 [Proposed] ISA 220 (Redrafted), paragraph [9(d)].
9 [Proposed] ISQC 1 (Redrafted), paragraph [12(f)].
10 [Proposed] ISA 220 (Redrafted), paragraph [9(d)].
knowledge of the field of expertise. If in preparing the financial statements management does not possess the necessary expertise, management may employ or engage an expert to address those risks. Relevant controls, including controls that relate to the work of an expert employed or engaged by management, if any, may also reduce the risks of material misstatement.

A83. If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required to be satisfied that the engagement team, and any auditor’s experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement. Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement. The auditor’s determination of whether to use the work of an auditor’s expert, 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 using the work of an auditor’s expert.

A94. Notwithstanding the requirements of ISA 220 (Redrafted) and ISA 300 (Redrafted) cited in the preceding paragraph, an auditor who is not an expert in a relevant field other than accounting or auditing may nevertheless be able to obtain a sufficient understanding of that field to perform the audit without an auditor’s expert. This understanding may be obtained through, e.g., for example:

- Experience in auditing entities that require such expertise in the preparation of their financial statements.
- Education or professional development in the particular field of expertise.
- [Issue B] Education or professional development in the particular field. This may include formal courses, or discussion with experts, individuals possessing expertise in the relevant field for the purpose of enhancing the auditor’s own capacity to deal with matters in that field. Such discussion differs from consulting with an auditor’s expert regarding a specific set of circumstances encountered on the engagement where that expert is given all the relevant facts that will enable the expert to provide informed advice about the particular matter.
- Discussion with auditors who have performed similar engagements.

A105. In other cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor’s expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor’s expert may include:

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12 [Proposed] ISA 300 (Redrafted), “Planning an Audit of Financial Statements,” paragraph [7(e)].
13 [Proposed] ISA 220 (Redrafted), paragraph [A21].
• Whether management has used an expert in preparing the financial statements (see paragraph [A116]).
• The nature and complexity-significance of the matter, including its complexity.
• The materiality of the matter, and the risks of material misstatement in the matter.
• The expected nature of procedures to respond to identified risks, including: the auditor’s knowledge of and experience with the work of experts in relation to such matters; and:
• The availability of alternative sources of audit evidence.

A116. When management has used an expert in preparing the financial statements, the auditor’s decision on whether to use an auditor’s expert may also 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 a party engaged by it to provide relevant services.
• The extent to which management can exercise control or influence over the work of the management’s expert.
• The management’s expert’s competence and capabilities.
• 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) includes requirements and guidance regarding the effect of the management’s expert’s competence, capabilities, and objectivity of experts employed or engaged by the entity on the reliability of audit evidence.

Nature, Timing and Extent of Audit Procedures (Ref: Para. 8)

A129. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this ISA will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:
• 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-knowledge of that expert’s competence, capabilities and objectivity.
• The auditor’s expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.

[Proposed] ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence,” paragraphs [812(e)], and [A34-A470a-A470g].
• The expert is an auditor’s external expert and is not, therefore, subject to the firm’s quality control policies and procedures.

The Competence, Capabilities and Objectivity of the Auditor’s Expert (Ref. Para. 9)

A130. The competence, capabilities 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 auditor’s purposes of the audit. Competence relates to the nature and level of expertise of the auditor’s expert. Capability relates the ability of the auditor’s expert to exercise that competence in the circumstances of the engagement. Factors that influence capability may include, for example, geographic location, and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the auditor’s expert.

A14. Information regarding the competence, capabilities and objectivity of an auditor’s expert may come from a variety of sources, such as:

• Personal experience with previous work of that expert.
• Discussions with that expert.
• Discussions with other auditors or 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.

A15. The engagement partner is required to be satisfied that the engagement team, and any auditor’s experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to perform the audit engagement.15 Auditor’s internal experts are subject to relevant ethical requirements, including those pertaining to independence,16 and the firm’s quality control policies and procedures as indicated in paragraph A3.17 Engagement teams are entitled to rely on the firm’s systems unless information provided by the firm or other parties suggest otherwise.18 This may be relevant with respect to auditor’s internal experts regarding aspects of such matters as:

• Competence and capabilities, through recruitment and training programs.
• Objectivity, through the firm’s policies and procedures to comply with relevant independence requirements.

15 [Proposed] ISA 220 (Redrafted), paragraph [164].
16 Relevant ethical requirements ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code) related to an audit of financial statements together with national requirements that are more restrictive.
17 That is, those implemented in accordance with ISQC 1 and, in the case of the members of the engagement team, ISA 220 (Redrafted).
18 [Proposed] ISA 220 (Redrafted), paragraph [63(e)].
• Adherence to regulatory and legal requirements, through monitoring processes.

A162. When matters relevant to evaluating the competence, capabilities and objectivity of the auditor’s expert, it may be relevant to consider include whether that expert’s work is subject to technical performance standards or other professional or industry requirements, e.g. for example, 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.

A173. Other matters that may be relevant to consider include:

• The relevance of the auditor’s expert’s 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 auditor’s expert’s competence with respect to relevant accounting and auditing requirements, for example, knowledge of assumptions and methods, including models where applicable, that are consistent with the applicable financial reporting framework.

• Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities and objectivity of the auditor’s expert as the audit progresses.

A184. A broad range of circumstances may threaten objectivity, e.g. for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Safeguards may eliminate or reduce such threats, and may be created by external structures (e.g. for example, the auditor’s expert’s profession, legislation or regulation), or by the auditor’s expert’s work environment (e.g. for example, quality control policies and procedures). There may also be safeguards specific to the audit engagement.

A19.5 The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the auditor’s expert and the significance of the expert’s work in the context of the audit. There may be some situations in which safeguards cannot reduce threats to an acceptable level, e.g. for example, if a proposed the auditor’s expert is an individual who has played a significant role in preparing the information that is being audited, that is, if the auditor’s expert is a management’s expert.

A2016. When evaluating the objectivity of an auditor’s external expert through inquiry regarding interests and relationships that may create a threat to that expert’s objectivity, it may be relevant to discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and to evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the auditor’s expert include:

• Financial interests.
• Business and personal relationships.
• Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor’s external expert about any interests or relationships with the entity of which that expert is aware.

A2147. Inquiry by the auditor of the entity about any known interests or relationships that the entity has with the auditor’s external expert may also be of assistance to the auditor in identifying circumstances that may affect that expert’s objectivity.

Obtaining an Understanding of the Field of Expertise of the Auditor’s Expert (Ref: Para. 10)

A2248. The auditor may obtain an understanding of the auditor’s expert’s field of expertise through the means described in paragraph A94, or through discussion with that expert.

A2349. Aspects of the auditor’s expert’s field relevant to the auditor’s understanding may include:
• Whether that expert’s field has areas of specialty within it that are relevant to the audit (see paragraph A173).
• Whether any professional or other standards, and regulatory or legal requirements apply.
• What assumptions and methods, including models where applicable, are used by the auditor’s expert, and whether they are generally accepted within that 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. 11)

A2440. The nature, scope and objectives of the auditor’s expert’s work will may vary considerably with the circumstances, as will may the respective roles and 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 required that these matters are agreed between the auditor and the auditor’s expert, and that this agreement is in writing when appropriate, both when regardless of whether the expert is an auditor’s external expert and when the expert is or an auditor’s internal expert.

A254. The matters noted in paragraph 8 may affect the level of detail and formality of the agreement between the auditor and the auditor’s expert, including whether it is appropriate that the agreement be in writing. In particular, the more significant when the work of an auditor’s expert is in the context of the audit, the more is particularly significant, it is likely that the agreement between the auditor and that expert will need to be reasonably detailed and set out formally in writing.

When the expert is subject to the auditor’s firm’s quality control policies and procedures, it is less likely that a written agreement will be needed.
A262. The agreement between the auditor and an auditor’s external expert is often documented in the form of an engagement letter. The Appendix lists matters that the auditor may consider for inclusion in such an engagement letter, or in any other form of agreement with an auditor’s external expert. In the case of an auditor’s internal expert, there may not be a written agreement. THE REMAINDER OF THIS PARA HAS BEEN MOVED TO PARA A43.

Nature, Scope and Objectives of Work (Ref: Para. 11(a))

A272. It may often be relevant when agreeing on the nature, scope and objectives of the auditor’s expert’s work to include discussion of any relevant technical performance standards or other professional or industry requirements that the expert will follow.

Respective Roles and Responsibilities (Ref: Para. 11(b))

A283. Agreement on the respective roles and responsibilities of the auditor and the auditor’s expert may include:

- The responsibility of the auditor’s expert to respect the confidentiality of information.
- Whether the auditor or the auditor’s expert will perform detailed testing of source data.
- The responsibility of the auditor’s expert to respect the confidentiality of information about the entity.
- Consent for the auditor to discuss the auditor’s expert’s findings or conclusions with the entity and others, and to include details of that expert’s findings or conclusions in a modified auditor’s report, if necessary (see paragraph A4136).
- Any agreement to inform the auditor’s expert of the auditor’s conclusions concerning that expert’s work.

Working Papers

A294. Agreement on the respective roles and responsibilities of the auditor and the auditor’s expert may also include agreement about access to each other’s working papers. When the auditor’s expert is a member 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. In such cases, it may be necessary to include file retention requirements in the agreement between the auditor and the auditor’s external expert.

Communication (Ref: Para. 11(c))

A3025. Effective two-way communication facilitates the proper integration of the nature, timing and extent of the auditor’s expert’s procedures with other work on the audit, and appropriate modification of the auditor’s expert’s objectives during the course of the audit. For example, when the work of the auditor’s expert relates to the auditor’s conclusions...
regarding a significant risk, both a formal written report at the conclusion of that expert’s work, and oral reports as the work progresses, may be appropriate. Identification of specific partners or staff who will liaise with the auditor’s expert, and procedures for communication between that expert and the entity, assists timely and effective communication, particularly on larger engagements.

**Evaluating the Adequacy of the Auditor’s Expert’s Work** (Ref: Para. 12)

A3126. The auditor’s evaluation of the auditor’s expert’s competence, capabilities, 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 affect the nature, timing and extent of audit procedures to evaluate the adequacy of that expert’s work for the auditor’s purposes of the audit.

*The Findings and Conclusions of the Auditor’s Expert* (Ref: Para. 12(a))

A3227. Specific procedures to evaluate the adequacy of the auditor’s expert’s work for the auditor’s purposes of the audit may include:

- 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 published data, such as statistical reports from reputable, authoritative sources.
  - Confirming relevant matters with third parties.
  - Performing detailed analytical procedures.
  - Reperforming calculations.
- Reviewing the auditor’s expert’s working papers.
- Discussion with another expert with relevant expertise when, for example, the findings or conclusions of the auditor’s expert are not consistent with other audit evidence.
- Discussing the auditor’s expert’s report with management.

A3328. Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions 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 with the auditor, the scope of the work performed and standards applied.
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.

Based on appropriate consideration of errors or deviations encountered by the auditor’s expert.

Assumptions, Methods and Source Data

Assumptions and Methods (Ref: Para. 12(b)(i))

A3429. When the auditor’s expert’s work is to evaluate underlying assumptions and methods, including models where applicable, used by management in developing an accounting estimate, the auditor’s procedures are likely to be primarily directed to considering whether the auditor’s expert has adequately reviewed those assumptions and methods. When the auditor’s expert’s work is to develop an auditor’s point estimate or an auditor’s range for comparison with management’s point estimate, the auditor’s procedures may be primarily directed to considering the assumptions and methods, including models where applicable, used by the auditor’s expert.

A350. ISA 540 (Revised and Redrafted) discusses the assumptions and methods, including models where applicable, used by management in making accounting estimates, including the use in some cases of highly specialized, entity-developed models. Although that discussion is written in the context of the auditor obtaining sufficient appropriate audit evidence regarding management’s assumptions and methods, including models where applicable, it may also assist the auditor when evaluating an auditor’s expert’s assumptions and methods, including models where applicable.

A364. When an auditor’s expert’s work involves the use of significant assumptions and methods, including models where applicable, that are significant to the auditor’s use of that work, relevant factors may be relevant to the auditor’s evaluation of include whether those assumptions and methods include whether they are:

- Generally accepted within the auditor’s expert’s field.
- Consistent with the requirements of the applicable financial reporting framework.
- Dependant on the use of specialized models.
- Consistent with those of management, and if not, the reason for and effects of the differences.

19 ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”
Source Data Used by the Auditor’s Expert (Ref: Para. 12(c))

A372. When an auditor’s expert’s work involves the use of source data that is significant to the auditor’s use of that expert’s work, procedures such as the following may be used to test that data:

- Verifying the origin of the data, including obtaining an understanding of, and where applicable testing, the internal controls over the data and, where relevant, its transmission to the expert.
- Recomputing the inputs.
- Reviewing the data for completeness and internal consistency.

A383. In many cases, the auditor may test source data. However, in other cases, when nature of the source data used by an auditor’s expert is highly technical in relation to the expert’s field, that expert may test the source data. If the auditor’s expert has tested the source data, inquiry of that expert by the auditor, or supervision or review of that expert’s tests may be an appropriate way for the auditor to evaluate that data’s relevance, completeness, and accuracy.

Inadequate Work (Ref: Para. 13)

A394. If the auditor concludes that the work of the auditor’s expert is not adequate for the auditor’s purposes of the audit and the auditor cannot resolve the matter through the additional audit procedures required by paragraph 13, which may involve further work being performed by both the expert and the auditor, which may include employing or engaging another expert, it may be necessary to express a modified audit opinion in the auditor’s report in accordance with ISA 705 (Revised and Redrafted) because the auditor has not obtained sufficient appropriate audit evidence.20

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

A4035. In some cases, law or regulation may require a reference to the work of an auditor’s expert, e.g. for example, for the purposes of transparency in the public sector.

A4136. 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.

Documentation (Ref: Para. 16)

A42. A written agreement between the auditor and the auditor’s expert may cover a number of engagements, for example, where a law firm is retained by the auditor’s firm on an ongoing

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20 ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report,” paragraph 6(b).
basis, Where this is the case, the audit documentation may refer to the written agreement rather than including a copy of it.

**A43.** THE UNDERLYING TEXT IN THIS PARA WAS PREVIOUSLY IN OLD PARA A22: When there is no written agreement between the auditor and the auditor’s expert, evidence documentation of the agreement may be included in, for example:

- Planning memoranda, or related working papers such as the audit program.
- The policies and procedures of the auditor’s firm. When In the case of an auditor’s internal expert is a member of the engagement team, the established policies and procedures to which that expert is subject may include particular policies and procedures in relation to that expert’s work, including the respective roles of the auditor’s expert and other members of the engagement team. The extent of any further documentation depends on the nature of such policies and procedures. For example, no further documentation may be required if the auditor’s firm has detailed protocols covering the circumstances in which the work of such an expert is used.

**A44.** [Issue C4] Other matters that it may be appropriate in the particular circumstances of the engagement for the auditor to document include:

- The matters the auditor considered in determining whether to use the work of an auditor’s expert.
- The effect that various matters had on the nature, timing and extent of the auditor’s procedures.
- The auditor’s evaluation of whether the auditor’s expert has the necessary competence, capabilities and objectivity for the auditor’s purposes.
- The auditor’s evaluation of the adequacy of the auditor’s expert’s work for the auditor’s purposes.
Appendix
(Ref: Para. A26)

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

This appendix lists matters that the auditor may consider for inclusion in any agreement with an auditor’s external expert. 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 internal expert.

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 materiality and risk considerations concerning the matter to which the auditor’s external expert’s work relates, and, when relevant, the applicable financial reporting framework.
- Any relevant technical performance standards or other professional or industry requirements the auditor’s external expert will follow.
- The assumptions and methods, including models where applicable, 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 roles and responsibilities of the auditor and the auditor’s external expert

- Relevant auditing and accounting standards, and relevant regulatory or legal requirements.
- The auditor’s external expert’s consent to the auditor’s intended use of that expert’s report, including any reference to it, or disclosure of it, to others, e.g., for example 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.
- Whether the auditor or the auditor’s external experts will test source data.
- 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.
- Ownership and control of working papers during and after the engagement, including any file
retention requirements.

- The responsibility of the auditor’s external expert to respect the confidentiality of information.
- The auditor’s external expert’s responsibility to perform work with due skill and care.
- The auditor’s external expert’s competence and capability to perform the work.
- The expectation that the auditor’s external expert will use all knowledge 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 that expert’s work

Communications and reporting

- Methods and frequency of communications, including:
  - How the auditor’s external expert’s findings or conclusions will be reported (written report, oral report, ongoing input to the engagement team, etc.).
  - Identification of specific persons within the engagement team who will liaise with the auditor’s external expert.
- When the auditor’s external expert will complete the work and report findings or conclusions 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 that expert’s findings or conclusions.
- The auditor’s external expert’s responsibility to communicate promptly instances in which the entity restricts 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 that expert believes may be relevant to the audit, including any changes in circumstances previously communicated.
- The auditor’s external expert’s responsibility to communicate circumstances that may create threats to that expert’s objectivity, and any relevant safeguards that may eliminate or reduce such threats to an acceptable level.
CONFORMING AMENDMENTS TO OTHER ISA

DRAFTING NOTES:

(a) Changes to the underlying text and paragraph numbers of [proposed] ISA 500 (Redrafted) agreed to at the June (Athens) meeting have not been shown in mark-up.

(b) Other changes to the conforming amendments tabled at the June meeting are marked as follows:

- Text proposed to be added is underlined and bold like this
- Text proposed to be delete is struck through with double lines like this

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

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

... 

(ed) Management’s expert – An individual or organization possessing expertise expert whose work in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

8. [Issue D] When information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary having regard to the significance of that expert’s work for the auditor’s purposes: (Ref: Para. A34-A35)

(a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A36-A42)

(b) Obtain an understanding of the work of that expert; and (Ref: Para. A43-A46)

(c) Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion. (Ref: Para. A47)

12. When using information 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; (Ref: Para. A24-A25)

(b) Evaluating whether the information is sufficiently precise and detailed for the auditor’s purposes; and (Ref: Para. A26)

(c) In the case of a management’s expert, evaluating the competence, capabilities and objectivity of that expert, obtaining an understanding of the work of that expert, and
Audit evidence is necessary to support the auditor’s opinion and 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 other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit\(^{21}\)) or a firm’s quality control procedures for client acceptance and continuance. In addition to other sources inside and outside the entity, the entity’s accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared using the work of a management’s expert 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. In addition, in some cases the absence of information (for example, management’s refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

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 …

Reliability of Information Produced by a Management’s Expert and Used for Audit Purposes
(Ref: Para. 8.12(c))

The preparation of an entity’s financial statements may require expertise in a field other than accounting or auditing, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement.

The nature, timing and extent of audit procedures in relation to the requirement in paragraph 8.12(c) of this ISA, may be affected by such matters as:

- The nature and complexity of the matter to which the management’s expert relates.

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\(^{21}\) ISA 315 (Redrafted), paragraph 9.
The materiality of the matter, and the risks of material misstatement in the matter.

The availability of alternative sources of audit evidence.

The nature, scope and objectives of the management’s expert’s work.

Whether the management’s expert is employed by the entity, or is a party engaged by it to provide relevant services.

The extent to which management can exercise control or influence over the work of the management’s expert.

Whether the management’s expert is subject to technical performance standards or other professional or industry requirements.

The nature and extent of any controls within the entity over the management’s expert’s work.

The auditor’s knowledge and experience of the management’s expert’s field of expertise.

The auditor’s previous experience of the work of that expert.

The Competence, Capabilities and Objectivity of a Management’s Expert (Ref: Para. 8(a))

Competence relates to the nature and level of expertise of the management’s expert. Capability relates to the ability of the management’s expert to exercise that competence in the circumstances of the engagement. Factors that influence capability may include, for example, geographic location, and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the management’s expert. The competence, capabilities, and objectivity of a management’s expert, and any controls within the entity over that expert’s work, are important factors in relation to the reliability of any information produced by a management’s expert. In some cases, however, it may not be necessary for the auditor to evaluate these matters. For example, events occurring up to the date of the auditor’s report may provide audit evidence regarding an accounting estimate produced by a management’s expert, or the auditor may develop a point estimate or a range to evaluate an estimate produced by a management’s expert.

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

- Personal experience with previous work of that expert.
- Discussions with that expert.
- 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.
- An auditor’s expert, if any, employed or engaged by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence with respect to information produced by the management’s expert.

A380e. **When Matters relevant to evaluating the competence, capabilities, competence and objectivity of a management’s expert, it may be relevant to consider include** 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.

A390d. **Other matters that may be relevant to consider include:**

- The relevance of the management’s expert’s 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 management’s expert’s competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models where applicable, *e.g.*, that are consistent with the applicable financial reporting framework.
- Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities and objectivity of the management’s expert as the audit progresses.

A4030e. A broad range of circumstances may threaten objectivity, *e.g.*, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats, and may 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).

A4130f. Although safeguards cannot eliminate all threats to a management’s expert’s objectivity, the significance of threats such as intimidation threats may be of less significance to an expert engaged by the entity than to an expert employed by the entity, and the significance effectiveness 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 present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

A4230g. When evaluating the objectivity of an expert engaged by the entity, it may be relevant to discuss with management and that expert any interests and relationships that may create threats to the expert’s objectivity, and any applicable safeguards, including any
professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Obtaining an Understanding of the Field of Expertise Work of a Management’s Expert
(Ref: Para. 8(b))

A430b. An understanding of the work of the management’s expert includes an understanding of the relevant field of expertise. Obtaining an understanding of the relevant field of expertise may be done in conjunction with the auditor’s determination of whether the auditor has the expertise to evaluate the work of the management’s expert, or whether the auditor needs to employ or engage an auditor’s expert for this purpose. The auditor may obtain an understanding of a management’s expert’s field of expertise through, for example:

- Experience in auditing entities that require 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.

A4430i. Aspects of the management’s expert’s field relevant to the auditor’s understanding may include:

- Whether that expert’s field has areas of specialty within it that are relevant to the audit.
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What assumptions and methods, including models where applicable, are used by the management’s expert, and whether they are generally accepted within that expert’s field and appropriate for financial reporting purposes.
- The nature of internal and external data or information the auditor’s expert uses.

A45. In the case of a management’s expert engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that expert. Evaluating that agreement when obtaining an understanding of the

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work of the management’s expert may assist the auditor in determining the appropriateness of the following for the auditor’s purposes:

(a) The nature, scope and objectives of that expert’s work;
(b) The respective roles and responsibilities of management and that expert; and
(c) The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert.

A46. In the case of a management’s expert employed by the entity, it is less likely there will be a written agreement of this kind. Inquiry of the expert and other members of management may be the most appropriate way for the auditor to obtain the necessary understanding.

Evaluating the Appropriateness Adequacy of the Management’s Expert’s Work (Ref: Para. 8(c)

A30j. The auditor’s evaluation of a management’s expert’s capabilities, competence and objectivity, the auditor’s familiarity with that expert’s field of expertise, and the nature of the work performed by that expert, affect the nature, timing and extent of audit procedures to evaluate the adequacy of that expert’s work for the purposes of the audit.

A4730k When Considerations when evaluating the appropriateness adequacy of the management’s expert’s work as audit evidence for the relevant assertion may include: for the purposes of the audit, the guidance in ISA 620 with respect to the following matters, adapted as appropriate, may assist the auditor:

(a) The relevance and reasonableness of that expert’s findings or conclusions, and their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
(b) If that expert’s work involves use of significant assumptions and methods, the relevance and reasonableness of those expert’s assumptions and methods; and
(c) If that expert’s work involves significant use of source data, the relevance, completeness, and accuracy of that source data used by that expert. 23

A30l It may be also appropriate for the auditor to evaluate the agreement between the entity and the management’s expert in order to determine the appropriateness of the following for the purposes of the audit of:

(a) The nature, scope and objectives of that expert’s work;
(b) The respective roles of management and that expert; and
(c) The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert.

In doing so, the guidance in ISA 620 with respect to agreement with the auditor’s expert, adapted as appropriate, may assist the auditor.\textsuperscript{24}