

SA 620 "USING THE WORK OF AN AUDITOR'S EXPERT"

- Auditor Expert = Use of an individual or organisation's work to assist the auditor in obtaining sufficient appropriate audit evidence in any field of expertise **other than accounting or auditing** (ET ka hissa manne jaate hai yeah log)
- Management Expert = Use of an individual or organisation's work to assist the entity in preparation & presentation of Financial Statement in any field of expertise other than accounting or auditing (ET ka hissa nahi manne jaate hai yeah log, even if their work is used by auditor)

NOTE

- ✓ Auditor's responsibility is not reduced by the auditor's use of the work of an auditor's expert. He remains sole responsible for the opinion expressed. (GAJAB)
- ✓ 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. (GAJAB)
- ✓ Auditor can use the work of an Expert if after following this SA he conclude that the work of expert is ADEQUATE.

Objectives

The objectives of the auditor is to determine:

- Whether to use the work of an auditor's expert; and (chaiye ya nahi)
- Whether that work is adequate for the auditor's purposes. (Adequacy of expert's work)

Matters where Auditor can use Expert Work

Expertise in a field other than Accounting & auditing may include expertise in relation to such matters/**field** as:-

- The valuation of complex financial instruments, land and buildings, plant and machinery, jewellery, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
- The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
- The environmental liabilities, and site clean-up costs calculation.
- The interpretation of contracts, laws and regulations.
- The oil and gas reserves estimation.
- The analysis of unusual tax compliance.

Procedures to be Followed while Using the work of AE

(a) Determining the Need for an AE

If expertise 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.

Matters on which **assistance** of auditor's expert may be required (**auditing matters**)

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

Considerations when deciding whether to use an auditor's expert (use karu ya nahi)

- The significance & nature of the matter, including its complexity.
- The availability of alternative sources of audit evidence.
- The risks of material misstatement in the matter.
- Whether management has used a management's expert in preparing the financial statements.

Factors influencing the auditor's decision w.r.t. use of AE when management had used a management expert (Expert toh expert hota hai)

- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services. (atiii sundarrrr)
- The extent to which management can exercise control or influence over the work of the management's expert. (mgt control)
- Any controls within the entity over the management's expert's work. (entity control)
- The nature, scope and objectives of the management's expert's work.
- 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.

(b) Evaluation, Competence, Capabilities and Objectivity of the Auditor's Expert

The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes.

Matters that may be relevant for evaluation of Competency

- Any areas of specialty within that expert's field.
For Ex.: A particular actuary may specialise in property and casualty insurance, but has limited expertise regarding pension calculations.
- The auditor's expert's competence with respect to relevant accounting and auditing requirements.
For Ex.: Knowledge of assumptions and methods, including models where applicable, that are consistent with the applicable FRF.
- Whether unexpected events, changes in conditions, or audit evidence obtained from results of audit procedures indicate that it may be necessary to reconsider initial evaluation of competence, capabilities and objectivity of the auditor's expert as the audit progresses.

Evaluating the objectivity of the expert

When evaluating the objectivity of an auditor's external expert, it may be relevant to:

- Inquire of the entity about any known interests or relationships that the entity has with the auditor's external expert that may affect that expert's objectivity.

- Inquire with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that may be relevant to discuss with the auditor's expert include:
 - (1) Financial interests.
 - (2) Business and personal relationships.
 - (3) Provision of other services by the expert, including by the organisation in the case of an external expert that is an organisation.
 - (4) 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.

(c) Agreement with Auditor's Expert

In writing, on the following matters:

- Nature, scope and objectives of Auditor's Expert work (may include relevant technical standards or other professional and industry requirements).
- Respective roles and responsibilities of auditors and Auditor Expert.
- Nature, timing and extent of communication, including form of report.
- Need for Auditor Expert to observe confidentiality requirements under ethical requirements or Law and Regulation.

NOTE

Agreement is often in the form of an engagement letter.

Factors suggesting need for detailed and written agreement with auditor's expert

- The auditor's expert will have access to sensitive or confidential entity information.
- The respective roles or responsibilities of the auditor and the auditor's expert are different from those normally expected.
- Multi-jurisdictional legal or regulatory requirements apply.
- The matter to which the auditor's expert's work relates is highly complex.
- The auditor has not previously used work performed by that expert.
- The greater the extent of the auditor's expert's work, and its significance in the context of the audit.

(d) Evaluating the Adequacy of Auditor's Expert Work

- **Findings and Conclusion:** Relevance, reasonableness (consistency with other audit evidence) (mera conclusion= uska conclusion)
- **Assumptions and Methods used:** Relevance and Reasonableness in the circumstance. (Accurate vs Reasonable)
- **Source data used:** Relevance, completeness, and accuracy.

Specific procedures to evaluate the adequacy of auditor expert's work for the auditor's purposes

- Inquiries of the auditor's expert.
- Reviewing the auditor's expert's working papers and reports. (Gandi baat)
- Corroborative procedures, such as:
 - (1) Observing the auditor's expert's work;

- (2) Examining published data, such as statistical reports from reputable, authoritative sources;
 - (3) Confirming relevant matters with third parties;
 - (4) Performing detailed analytical procedures; and
 - (5) Re-performing calculations.
- 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.

Evaluation of relevance and reasonableness of assumptions and methods

- When 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 evaluating whether the auditor's expert has adequately reviewed those assumptions and methods.
- SA 540 discusses the assumptions and methods used by management in making accounting estimates, including the use in some cases of highly specialised, entity-developed models. Although that discussion is written in the context of the auditor obtaining SAAE regarding management's assumptions and methods, it may also assist the auditor when evaluating an auditor's expert's assumptions and methods.
- When an auditor's expert's work involves the use of significant assumptions and methods, factors relevant to the auditor's evaluation of those assumptions and methods include whether they are:
 - (1) Generally accepted within the auditor's expert's field;
 - (2) Consistent with the requirements of the applicable financial reporting framework;
 - (3) Dependent on the use of specialised models; and
 - (4) Consistent with those of management, and if not, the reason for, and effects of, the differences.

Procedures used to test Source 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.
- Reviewing the data for completeness and internal consistency

(e) Auditor's Expert Work not adequate for audit Purposes

- If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall:
 - (1) Agree with that expert on the nature and extent of further work to be performed by that expert; or
 - (2) Perform further audit procedures appropriate to circumstances.
- If the auditor concludes that the work of the auditor's expert is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit procedures, which may involve further work being performed by both the expert and the auditor, or include employing or engaging another expert, it may be necessary to express a modified

opinion in the auditor's report in accordance with SA 705 because the auditor has not obtained SAAE.

NTE of Audit Procedures

While determining the nature, timing and extent of the procedures to be performed w.r.t. the requirements of this SA, the auditor shall consider matters including:

- The nature of the matter to which that expert's work relates;
- The risks of material misstatement in the matter to which that expert's work relates;
- The significance of that expert's work in the context of the audit;
- The auditor's knowledge of and experience with previous work performed by that expert; and
- Whether that expert is subject to the auditor's firm's quality control policies and procedures.

Factors suggesting need for different or extensive procedures

- 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 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.
- The expert is an auditor's external expert and is not subject to the firm's quality control policies and procedures.

Reference to Auditor's Expert in Auditor's Report

- 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 reduce the auditor's responsibility for the audit opinion.
- If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Rachit's Special (Auditor's Expert ko refer karna hai ki nahi)

Unmodified opinion	Not to refer (L&R= Refer)	auditor's responsibility will NOT be reduced.
Modified opinion	Refer = relevant to understanding of user	

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<p>Auditor Expert =</p> <ul style="list-style-type: none"> ➤ Use of an individual or organisations work ➤ to assist the auditor in obtaining SAAE ➤ in any field of expertise other than accounting or auditing ➤ (ET ka hissa manne jaate hai yeah log) 	<p>Management Expert =</p> <ul style="list-style-type: none"> ➤ Use of an individual or organisations work ➤ to assist the entity in PPFS ➤ in any field of expertise other than accounting or auditing. <p>(ET ka hissa nahi manne jaate hai yeah log, even if their work is used by auditor)</p>	<p>Expertise in relation to such matters/field as:- (MT= Vowels-AEIOU)</p> <ul style="list-style-type: none"> ✓ The <u>valuation</u> (109, 103, 16) ✓ The <u>actuarial calculation</u> of liabilities associated with employee benefit plans. ✓ The <u>environmental liabilities</u>, & site clean-up costs calculation. ✓ The <u>interpretation</u> of contracts, laws and regulations. ✓ The <u>oil and gas reserves</u> estimation ✓ The analysis of <u>unusual tax</u> compliance. 	<p>Matters on which assistance of auditor's expert may be required (auditing matters) (MT= Audit procedure)</p> <ul style="list-style-type: none"> ✓ Identifying and assessing the <u>ROMM</u> ✓ Obtaining an <u>understanding</u> of the entity ✓ <u>Overall responses</u> at FS level. ✓ FAP to respond at the <u>assertion level</u> ✓ Evaluating the <u>SAAE</u> obtained in forming an opinion on the financial statements.
<ul style="list-style-type: none"> ➤ May be <ul style="list-style-type: none"> ✓ Internal (network firm also) ✓ External (ET ka hissa hai) 			
<p>Special Note-</p> <ul style="list-style-type: none"> ➤ Responsibility is not reduced (220,500,580,610,620) ➤ Responsibility Reduce (299,600) ➤ Can use only if work is adequate 			

<p>whether to use an AE (use karu ya nahi) (MT= aapko SARM aati ho voh AE se karvao)</p> <ul style="list-style-type: none"> ✓ <u>Significance & nature of the matter</u>, including its complexity. ✓ Availability of <u>alternative sources</u> of audit evidence. ✓ The <u>ROMM</u> in the matter. ✓ Whether management has used a <u>management's expert</u> in preparing the financial statements. 	<p>use of AE when management had used a management expert (Expert toh expert hota hai) (MT= 3 by 3)</p> <ul style="list-style-type: none"> ✓ <u>Employed</u> by the entity, or is <u>engaged</u> by it. ✓ Management can exercise <u>control</u> (mgt control) ✓ Any <u>controls</u> within the entity (entity control) ✓ Nature, <u>scope</u> and objectives of ME ✓ <u>Competence and capabilities</u>. ✓ <u>Technical performance</u> standards or other professional or industry requirements. 	<p>Agreement with Auditor's Expert In writing, on the following matters:</p> <ul style="list-style-type: none"> ▪ <u>Nature, scope and objectives</u> of Auditor's Expert work ▪ Respective roles and responsibilities of auditors and Auditor Expert. ▪ NTE of communication ▪ Need for Auditor Expert to observe confidentiality requirements. <p>NOTE Agreement is often in the form of an <u>engagement letter</u>.</p>
<ol style="list-style-type: none"> 1. Competence: Relates to nature and level of expertise. 2. Capability: Ability to exercise that competence. <p>Evaluation of Competency</p> <ul style="list-style-type: none"> ✓ Any <u>areas of specialty</u> within that expert's field. ✓ The auditor's expert's competence with respect to relevant accounting and auditing requirements. ✓ Whether <u>unexpected events</u>, changes in conditions, indicate to reconsider initial evaluation of competence, capabilities and objectivity 	<p>Evaluating the objectivity</p> <ul style="list-style-type: none"> ✓ <u>Inquire of the entity</u> about any known interests or relationships ✓ <u>Inquire with that expert</u> any applicable safeguards <p>Interests and relationships that may be relevant to discuss/Inquire with the AE:- (general ans)</p> <ol style="list-style-type: none"> (1) <u>Financial</u> interests. (2) Business and personal <u>relationships</u>. (3) Provision of <u>other services</u> by the expert (4) To obtain a <u>written representation</u> from the auditor's external expert about any relationships with the entity of which that expert is aware. 	<p>Detailed and written agreement</p> <ul style="list-style-type: none"> ✓ <u>highly complex</u>. ✓ <u>different from those normally expected</u>. ✓ <u>Multi-jurisdictional</u> legal req apply. ✓ <u>not previously used work</u>. ✓ <u>significance in the context of the audit</u> ✓ <u>sensitive or confidential</u> information.

Evaluating the Adequacy of Auditor's Expert Work

- ✓ **Findings and Conclusion:** Relevance, reasonableness (consistency)
- ✓ **Assumptions and Methods used:** Relevance and Reasonableness (Accurate vs Reasonable)
- ✓ **Source data used:** Relevance, completeness, and accuracy.

Auditor's **evaluation of those assumptions** and methods include whether they are:

- (1) Generally accepted
- (2) Consistent with FRF
- (3) Dependent on specialised models; and
- (4) Consistent with those of management

Procedures used to test Source Data

- Verifying the internal control, its transmission to the expert.
- Reviewing the data for completeness and internal consistency

Specific procedures to evaluate the adequacy of auditor expert's work for the auditor's purposes

- Inquiries of the auditor's expert.
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- Corroborative procedures, such as: (Supportive) (vella panti)
 - (1) Observing the auditor's expert's work;
 - (2) Examining published data, such as statistical reports from reputable, authoritative sources;
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- 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.

AE Work not adequate for audit Purpose

1. Agree with that expert on further work to be performed by that expert; or
2. Perform further audit procedures

Note- Not adequate, not perform FAP= QO/DO

Different or extensive procedures

- 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 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.
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