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AUASB Meeting 6-7 April 2009
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EXPOSURE DRAFT

ED 14/09
(April 2009)

**Proposed Auditing Standard
ASA 620
*Using the Work of an
Auditor's Expert* (Revised and
Redrafted)
(Re-issuance of ASA 620)**

Issued for Comment by the **Auditing and Assurance Standards Board**

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Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by no later xx May 2009. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au.

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Draft

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PREFACE

Reasons for Issuing ED 14/09

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard ASA 620 *Using the Work of an Expert* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has undertaken a programme to redraft, in “clarity” format, the entire suite of International Standards on Auditing (ISAs). In some cases, and in accordance with normal practice, the ISAs have been revised in addition to being redrafted. The redrafted ISAs are effective for audits of financial statements for periods beginning on or after 15 December 2009.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the IAASB for the revision and enhancement of the ISAs and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

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Main Proposals

This proposed Auditing Standard establishes mandatory Requirements and provides Application and Other Explanatory Material regarding the use of an individual or organisation's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 January 2010.

Main changes from existing ASA 620 *Using the Work of an Expert* (April 2006)

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 620 *Using the Work of an Expert* (April 2006), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard ASA 620, *Using the Work of an Expert* by no later than xx May 2009. The AUASB is seeking comments on the main changes from the existing ASA 620. In addition, respondents are asked to consider and respond to the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any references to relevant laws or regulations that have been omitted?
3. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
4. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing

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Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

5. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the main changes to the Requirements of this proposed Auditing Standard are supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the Auditing Standard.

AUASB Information Note

The IAASB has announced completion of the “Clarity” project. While all currently known conforming amendments are incorporated into this Exposure Draft, readers are advised that the AUASB may decide to make further conforming amendments and other editorial changes

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 620 *Using the Work of an Auditor's Expert (Revised and Redrafted)* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards operative for financial reporting periods commencing on or after 1 January 2010 are to be understood, interpreted and applied.

AUDITING STANDARD ASA 620

Using the Work of an Auditor's Expert (Revised and Redrafted)

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

Introduction

Scope of this ASA

1. This Auditing Standard deals with the auditor's responsibilities relating to the work of an individual or organisation in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.
2. This Auditing Standard does not deal with:
 - (a) Situations where the engagement team includes a member, or consults an individual or organisation, with expertise in a

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specialised area of accounting or auditing, which are dealt with in ASA 220 (Revised and Redrafted);¹ or

- (b) The auditor's use of the work of an individual or organisation possessing expertise 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 report (a management's expert), which is dealt with in ASA 500 (Revised and Redrafted).²

The Auditor's Responsibility for the Audit Opinion

3. The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced 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 Auditing Standard, concludes that the work of that expert is adequate for the auditor's purposes, the auditor may accept that expert's findings or conclusions in the expert's field as appropriate audit evidence.

Effective Date

4. [Deleted by the AUASB. Refer Aus 0.3]

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.

Definitions

6. For the purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:
- (a) Auditor's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to

¹ See ASA 220 (Revised and Redrafted) *Quality Control for an Audit of a Financial Report* paragraphs A10, A20-A22.

² See ASA 500 (Revised and Redrafted) *Audit Evidence* paragraphs A34-A48.

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assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner³ or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert. (Ref: Para. A1-A3)

- (b) Expertise means skills, knowledge and experience in a particular field.
- (c) Management's expert means an individual or organisation possessing expertise 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 report.

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. A4-A9)

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 of this Auditing Standard will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)
 - (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

³ "Partner" and "firm" should be read as referring to their public sector equivalents where relevant.

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- (e) Whether that expert is subject to the auditor's firm's quality control policies and procedures. (Ref: Para. A11-A13)

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. In the case of an auditor's external expert, the evaluation of objectivity shall include enquiry regarding interests and relationships that may create a threat to that expert's objectivity. (Ref: Para. A14-A20)

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. A21-A22)
 - (a) Determine the nature, scope and objectives of that expert's work for the auditor's purposes; and
 - (b) Evaluate the adequacy of that work for the auditor's purposes.

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. A23-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; (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; and (Ref: Para. A30)
 - (d) The need for the auditor's expert to observe confidentiality requirements. (Ref: Para. A31)

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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, including: (Ref: Para. A32)
- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence; (Ref: Para. A33-A34)
 - (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and (Ref: Para. A35-A37)
 - (c) If 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. (Ref: Para. A38-A39)
13. If the auditor determines that the work of the auditor's expert is not adequate for the auditor's purposes, the auditor shall: (Ref: Para. A40)
- (a) Agree with that expert on the nature and extent of further work to be performed by that expert; or
 - (b) Perform additional audit procedures appropriate to the circumstances.

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 reduce the auditor's responsibility for the auditor's opinion. (Ref: Para. A41)
15. 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. (Ref: Para. A42)

* * *

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Application and Other Explanatory Material

Definition of an Auditor's Expert (Ref: Para. 6(a))

- 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, 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 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. In many cases, distinguishing between expertise in accounting or auditing, and expertise in another field, will be straightforward, even where this involves a specialised area of accounting or auditing. For example, an individual with expertise in applying methods of accounting for deferred income tax can often be easily distinguished from an expert in taxation law. The former is not an expert for the purposes of this Auditing Standard as this constitutes accounting expertise; the latter is an expert for the purposes of this Auditing Standard as this constitutes legal expertise. 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 modelling for the purpose of valuing financial instruments. In some cases, however, particularly those involving an emerging area of accounting or auditing expertise, distinguishing between specialised areas of accounting or auditing, and expertise in another field, will be a matter of professional judgement. Applicable professional rules and standards regarding education and

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competency requirements for accountants and auditors may assist the auditor in exercising that judgement.⁴

- A3. It is necessary to apply judgement when considering how the requirements of this Auditing Standard are affected by the fact that an auditor's expert may be either an individual or an organisation. For example, when evaluating the competence, capabilities and objectivity of an auditor's expert, it may be that the expert is an organisation the auditor has previously used, but the auditor has no prior experience of the individual expert assigned by the organisation for the particular engagement; or it may be the reverse, that is, the auditor may be familiar with the work of an individual expert but not with the organisation that expert has joined. In either case, both the personal attributes of the individual and the managerial attributes of the organisation (such as systems of quality control the organisation implements) may be relevant to the auditor's evaluation.

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

- A4. 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, comprising tests of controls or substantive procedures.
 - Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial report.
- A5. The risks of material misstatement may increase when expertise in a field other than accounting is needed for management to prepare the

⁴ For example, *Competency Requirements for Auditors of Self-Managed Superannuation Funds* issued jointly by CPA Australia Limited, The Institute of Chartered Accountants of Australia and the National Institute of Accountants.

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financial report, for example, because this may indicate some complexity, or because management may not possess knowledge of the field of expertise. If in preparing the financial report management does not possess the necessary expertise, a management's expert may be used in addressing those risks. Relevant controls, including controls that relate to the work of a management's expert, if any, may also reduce the risks of material misstatement.

- A6. If the preparation of the financial report 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 that financial report. 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.⁵ Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.⁶ 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.
- A7. 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, for example:
- Experience in auditing entities that require such expertise in the preparation of their financial report.
 - Education or professional development in the particular field. This may include formal courses or discussion with 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 consultation 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

⁵ See ASA 220 (Revised and Redrafted) paragraph 14.

⁶ See ASA 300 (Revised and Redrafted) *Planning an Audit of a Financial Report* paragraph 7(e).

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expert to provide informed advice about the particular matter.⁷

- Discussion with auditors who have performed similar engagements.

A8. 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:

- Whether management has used a management's expert in preparing the financial report (see paragraph A9).
- The nature and significance of the matter, including its complexity.
- 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.

A9. When management has used a management's expert in preparing the financial report, 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

⁷ See ASA 220 (Revised and Redrafted) paragraph A21.

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- Any controls within the entity over the management's expert's work.
- ASA 500 (Redrafted)⁸ includes requirements and guidance regarding the effect of the competence, capabilities and objectivity of management's experts on the reliability of audit evidence.

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

A10. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this Auditing Standard 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 judgements.
- 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, therefore, subject to the firm's quality control policies and procedures.

The Auditor's Firm's Quality Control Policies and Procedures (Ref: Para. 8(e))

A11. 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 ASQC 1.⁹ 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.

⁸ See ASA 500 (Revised and Redrafted) paragraph 8.

⁹ See ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, and Other Assurance and Related Services Engagements," paragraph 12(f).

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- A12. 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 ASQC 1.¹⁰ In some jurisdictions, however, law or regulation may require that an auditor's external expert be treated as a member of the engagement team, and may therefore be subject to relevant ethical requirements, including those pertaining to independence, and other professional requirements, as determined by that law or regulation.
- A13. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.¹¹ The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as:
- Competence and capabilities, through recruitment and training programs.
 - Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those pertaining to independence.
 - The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programs may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training and other firm processes, such as protocols for scoping the work of auditor's internal experts, may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.
 - Adherence to regulatory and legal requirements, through monitoring processes.
 - Agreement with the auditor's expert.

Such reliance does not reduce the auditor's responsibility to meet the requirements of this Auditing Standard.

¹⁰ ASQC 1, paragraph 12(f).

¹¹ ASA 220 (Revised and Redrafted) paragraph 4.

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

- A14. 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. Competence relates to the nature and level of expertise of the auditor's expert. Capability relates to 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 judgement of the auditor's expert.
- A15. 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, licence to practice, or other forms of external recognition.
 - Published papers or books written by that expert.
 - The auditor's firm's quality control policies and procedures. (see paragraphs A11-A13)
- A16. Matters relevant to evaluating the competence, capabilities and objectivity of the auditor's expert include whether that expert's work is subject to technical performance standards or other professional or industry requirements, 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.
- A17. Other matters that may be relevant include:

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- 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 specialise 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.
- A18. A broad range of circumstances may threaten objectivity, 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 (for example, the auditor's expert's profession, legislation or regulation), or by the auditor's expert's work environment (for example, quality control policies and procedures). There may also be safeguards specific to the audit engagement.
- A19. 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 circumstances in which safeguards cannot reduce threats to an acceptable level, for example, if a proposed 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.
- A20. When evaluating the objectivity of an auditor's external expert, it may be relevant to:
- (a) Enquire 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.

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- (b) Discuss 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:
- Financial interests.
 - Business and personal relationships.
 - Provision of other services by the expert, including by the organisation in the case of an external expert that is an organisation.

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.

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

- A21. The auditor may obtain an understanding of the auditor's expert's field of expertise through the means described in paragraph A7, or through discussion with that expert.
- A22. 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 A17).
 - 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.

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Agreement with the Auditor's Expert (Ref: Para. 11)

- A23. The nature, scope and objectives of the auditor's expert's work may vary considerably with the circumstances, as 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 regardless of whether the expert is an auditor's external expert or an auditor's internal expert.
- A24. 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. For example, the following factors may suggest the need for more a detailed agreement than would otherwise be the case, or for the agreement to be set out in writing:
- 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.
- A25. The agreement between the auditor and an auditor's external expert is often 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.
- A26. When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

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

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

- A27. 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))

- A28. Agreement on the respective roles and responsibilities of the auditor and the auditor's expert may include:
- Whether the auditor or the auditor's expert will perform detailed testing of source data.
 - 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 the basis for a modified opinion in the auditor's report, if necessary (see paragraph A42).
 - Any agreement to inform the auditor's expert of the auditor's conclusions concerning that expert's work.

Working Papers

- A29. Agreement on the respective roles and responsibilities of the auditor and the auditor's expert may also include agreement about access to, and retention of, 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

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agreement to the contrary, auditor's external experts' working papers are their own and do not form part of the audit documentation.

Communication (Ref: Para. 11(c))

- A30. 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.

Confidentiality (Ref: Para. 11(d))

- A31. It is necessary for the confidentiality provisions of relevant ethical requirements that apply to the auditor also to apply to the auditor's expert. Additional requirements may be imposed by law or regulation. The entity may also have requested that specific confidentiality provisions be agreed with auditor's external experts.

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

- A32. 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.

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

- A33. Specific procedures to evaluate the adequacy of the auditor's expert's work for the auditor's purposes may include:
- Enquiries of the auditor's expert.
 - Reviewing the auditor's expert's working papers and reports.

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- 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; and
 - 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.
- A34. 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; and
 - 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))

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- A35. 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 evaluating 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 evaluating the assumptions and methods, including models where appropriate, used by the auditor's expert.
- A36. ASA 540 (Revised and Redrafted)¹² 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 sufficient appropriate audit evidence regarding management's assumptions and methods, it may also assist the auditor when evaluating an auditor's expert's assumptions and methods.
- A37. 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:
- Generally accepted within the auditor's expert's field;
 - Consistent with the requirements of the applicable financial reporting framework;
 - Dependent on the use of specialised models; and
 - Consistent with those of management, and if not, the reason for, and effects of, the differences.

Source Data Used by the Auditor's Expert (Ref: Para. 12(c))

- A38. When an auditor's expert's work involves the use of source data that is significant to 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

¹² See ASA 540 (Revised and Redrafted) *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* paragraphs 8, 13 and 15.

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controls over the data and, where relevant, its transmission to the expert.

- Reviewing the data for completeness and internal consistency.

A39. In many cases, the auditor may test source data. However, in other cases, when the 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, enquiry 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)

A40. 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 required by paragraph 13, 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 ASA 705 (Revised and Redrafted) because the auditor has not obtained sufficient appropriate audit evidence.¹³

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

A41. In some cases, law or regulation may require a reference to the work of an auditor's expert, for example, for the purposes of transparency in the public sector.

A42. 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.

¹³ See ASA 705 (Revised and Redrafted) *Modifications to the Opinion in the Independent Auditor's Report* paragraph 6(b).

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Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 620 *Using the Work of an Auditor's Expert* (Revised and Redrafted), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix "Aus".

Compliance with this Auditing Standard enables compliance with ISA 620.

Appendix 1

(Ref: Para. A25)

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 Auditing Standard. 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.

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**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, for example reference to it in the basis for a modified opinion in the 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.
- Whether the auditor or the auditor's external expert 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 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

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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.

Confidentiality

- The need for the auditor's expert to observe confidentiality requirements, including:
 - The confidentiality provisions of relevant ethical requirements that apply to the auditor.
 - Additional requirements that may be imposed by law or regulation, if any.

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- Specific confidentiality provisions requested by the entity, if any.

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Tables of Differences — ASA 620 (Revised and Redrafted) and Extant ASA 620

Underlying Standard

ISA 620 *Using the Work of an Auditor's Expert* (Revised and Redrafted) is used as the underlying Auditing Standard for the purpose of re-drafting this proposed Auditing Standard. The underlying Auditing Standard will be amended for the following matters:

- Australian Laws and Regulations (including the *Corporations Act 2001*);
- Changes considered necessary because this Auditing Standard is a legislative instrument; and
- Changes considered necessary in the public interest.

Summary of Main Differences — ASA 620 (Revised and Redrafted) and Extant ASA 620

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and extant ASA 620.

Requirements in ASA (Revised and Redrafted) not in Extant ASA

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Objectives			
1	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.	New Objectives.

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Definitions			
2	6	<p>For purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:</p> <p>(a) Auditor's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert. (Ref: Para. A1-A3)</p> <p>(b) Expertise means skills, knowledge and experience in a particular field.</p> <p>(c) Management's expert means an individual or organisation possessing expertise 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 report.</p>	<p>ASA 620 (Revised and Redrafted) distinguishes between an <i>auditor's expert</i> and a <i>management's expert</i>, whereas the extant ASA uses the term <i>expert</i> to cover both types.</p> <p>ASA 620 (Revised and Redrafted) contains Requirements and guidance relating to an auditor's expert, while material relating to a management's expert is now contained in ASA 500 (Revised and Redrafted) <i>Audit Evidence</i>.</p> <p>ASA 620 (Revised and Redrafted) further defines an auditor's expert as either an auditor's <i>internal</i> expert or and auditor's <i>external</i> expert.</p> <p>No new audit concepts – clarification of existing terms only.</p>
Determining the Need for an Auditor's Expert			
3	7	<p>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. A4-A9)</p>	<p>Elevation of Extant ASA Explanatory Guidance</p> <p>[Extant ASA 620 para 10-11]</p>
Nature, Timing and Extent of Audit Procedures			
4	8	<p>The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9-13 of this ASA will vary depending on the circumstances. In determining the nature, timing</p>	<p>Implicit in the Extant ASA.</p> <p>[Extant ASA 620 para 10-11]</p>

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
		and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10) (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 that expert is subject to the auditor’s firm’s quality control policies and procedures. (Ref: Para. A11-A13).	
Agreement with the Auditor’s Expert			
5	11	The auditor shall agree, in writing when appropriate, on the following matters with the auditor’s expert: (Ref: Para. A23-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; (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; and (Ref: Para. A30) (d) The need for the auditor’s expert to observe confidentiality requirements. (Ref: Para. A31)	Elevation of extant ASA Explanatory Guidance [Extant ASA 620 para 18—equivalent Explanatory Guidance]

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Reference to the Auditor’s Expert in the Auditor’s Report			
6	15	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. (Ref: Para. A42)	Elevation of extant ASA Explanatory Guidance [Extant ASA 620 para 26-27—equivalent Explanatory Guidance]

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Significant Differences in Guidance — ASA (Revised and Redrafted) and Extant ASA

Item #	ASA (Revised and Redrafted)/ ASA Para. #	Guidance	Commentary
<p>General Comment</p> <p>ASA 620 (Revised and Redrafted) <i>Using the Work of an Auditor’s Expert</i> provides more extensive guidance relating to all aspects of using the work of an auditor’s expert (as opposed to a management’s expert, which is now covered in ASA 500 (Revised and Redrafted)). Areas of significant new guidance include:</p> <ul style="list-style-type: none"> • Para A10-A13 determining the nature, timing and extent of audit procedures when using the work of an auditor’s expert. • Para A14-A22 understanding the competence, capabilities, objectivity and field of expertise of the auditor’s expert. • Para A23-A31 establishing agreement with the auditor’s expert about the work to be performed. Further considerations are provided in the Appendix. Refer <i>Significant Differences in Appendices</i> below. • Para A32-A40 evaluating the work of the auditor’s expert. 			

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Significant Differences in Appendices — ASA (Revised and Redrafted) and Extant ASA

Item #	ASA (Revised and Redrafted) Para. #	ASA (Revised and Redrafted) Requirements	Commentary
Considerations for Agreement between the Auditor and an Auditor’s External Expert			
1	Appendix	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 ASA. 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. 	Provides new guidance on matters that may be included in an agreement with an auditor’s external expert. May also be of assistance when using an auditor’s internal expert.

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