

GS 005
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Guidance Statement GS 005

Using the Work of a Management's Expert

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



Australian Government

Auditing and Assurance Standards Board

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on certain procedural, entity or industry specific matters related to the application of an AUASB Standard(s).

Guidance Statements are designed to provide assistance to auditors and assurance practitioners to assist them in fulfilling the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement. Further, Guidance Statements do not establish or extend the requirements under an existing AUASB Standard(s).

Guidance Statement *Using the Work of a Management's Expert* is not, and is not intended to be, a substitute for compliance with the relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

CONTENTS

AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application	1-2
Issuance Date	3
Introduction	4
Scope of this Guidance Statement	5-7
Definitions	8
The Auditor’s Responsibility for the Conclusion	9
Examples of the use of Management’s Experts	10
Considerations in Determining the Auditor’s Need to Use the Work of a Management’s Expert	11-12
Considerations in Determining the Information to Be Used as Audit Evidence	13
Competence, Capabilities and Objectivity of a Management’s Expert	14-18
Obtaining an Understanding of the Work of a Management’s Expert	19-22
Evaluating the Appropriateness and Adequacy of the work of a Management’s Expert	23-30
Documentation	31
Reference to the Work of a Management’s Expert in the Auditor’s Report	32-33
Communication with Those Charged with Governance and Others	34-35
Conformity with International Pronouncements	36

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 005 *Using the Work of a Management's Expert* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statement does not prescribe or create new requirements.

Dated: 16 March 2015

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 005

Using the Work of a Management's Expert

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors when using the work of a management's expert as audit evidence in relation to:
 - (a) the audit of a financial report, in accordance with the *Corporations Act 2001*;
 - (b) the audit of a financial report for any other purpose; and
 - (c) the audit of other historical financial information¹.
2. This Guidance Statement provides guidance that may be considered and adapted as necessary in the circumstances, to non-historical financial information assurance engagements but is not a substitute for referring to the requirements and application material contained in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Issuance Date

3. This Guidance Statement is issued on 16 March 2015 by the AUASB and replaces GS 005 *Using the Work of an Actuary*, issued in October 2007.

Introduction

4. This Guidance Statement has been developed to provide guidance on:
 - (a) identifying when management's experts are used by management, including the circumstances under which they may be used and the nature of that work;
 - (b) the auditor's considerations in determining the need to use the work of a management's expert as audit evidence in carrying out the responsibilities of the auditor with respect to an entity's financial report or other historical financial information; and
 - (c) the auditor's considerations in determining the information to be used as audit evidence.

Scope of this Guidance Statement

5. ASA 500² *Audit Evidence*, establishes mandatory requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. This Guidance Statement is to be read in conjunction with ASA 500.
6. This guidance applies equally to the use of a management's expert whether they are internal or external to an entity, but does not deal with the use of experts that are not engaged or employed by management.
7. This Guidance Statement does not provide guidance on the auditor's use of the work of an auditor's expert nor does using the work of a management's expert preclude the need to use the work of an auditor's expert if the auditor using their professional judgement considers it necessary. ASA 620 *Using the Work of an Auditor's Expert* establishes mandatory

¹ For example, other financial information may include the annual Australian Prudential Regulation Authority (APRA) return(s) for a life company as specified in Prudential Standard LPS 310 *Audit and Related Matters – Attachment A*.

² See ASA 500, paragraph 8.

requirements and provides explanatory guidance on using the work of an auditor's expert as audit evidence.

Definitions

8. For the purposes of this Guidance Statement the following items have the meanings attributed below:
- (a) Expertise means skills, knowledge and experience in a particular field.
 - (b) 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 or other historical financial information.

The Auditor's Responsibility for the Conclusion

9. 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 a management's expert ("expert").

Examples of the use of Management's Experts

10. The preparation and presentation of a financial report and/or other historical financial information of an entity is the responsibility of management and those charged with governance. Determination of amounts included in the financial report and/or other historical financial information may require expertise in a field other than accounting or auditing. Management may engage or employ experts (this may include but is not limited to actuaries, valuers, engineers, environmental consultants, geologists, scientists, health practitioners, taxation specialists, legal advisors and other industry specialists) to obtain the necessary information to prepare the financial report and/or historical financial information. Failure to do so when such expertise is necessary increases the risk of material misstatement. Examples of such expertise include:
- Valuation (for example, high-technology materials or equipment, complex financial instruments, land and buildings, intangibles, investments and environmental liabilities);
 - Determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals, mineral reserves, or raw materials stored in stockpiles);
 - Determination of amounts derived by using specialised techniques or methods (for example, actuarial calculations of liabilities associated with insurance contracts or employee benefit plans); and
 - Interpretation of technical requirements of contract, laws and regulations. This may be done in some cases by those possessing legal expertise. *ASA 502 Audit Evidence – Specific Considerations for Litigation and Claims* establishes requirements and provides application and other explanatory material regarding considerations by an auditor in obtaining sufficient appropriate audit evidence relating to litigation and claims. The requirement in ASA 502 is for the auditor to consider the applicable requirements and guidance on using the work of an expert contained in ASA 500 before relying on in-house or external legal counsel.

Considerations in Determining the Auditor's Need to Use the Work of a Management's Expert

11. When a financial report and/or other historical financial information includes amounts determined by, or based upon the work of an expert, the auditor considers and concludes on

whether the work of that expert is adequate for the auditor's purposes, and can be accepted as appropriate audit evidence.

12. The auditor's decision on whether to use the work of an expert will be influenced by the nature and significance of the matter including its complexity, the risks of material misstatement in the matter and the expected nature of procedures to respond to the identified risks, including the auditor's knowledge of, and experience with, the work of the experts in relation to such matters and the availability of alternative sources of audit evidence. When determining the nature, timing and extent of audit procedures in relation to the work of the expert, the auditor makes reference to the requirements, application material and guidance contained in ASA 500.

Considerations in Determining the Information to Be Used as Audit Evidence

13. ASA 500³ requires that if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes:
- Evaluates the competence, capabilities and objectivity of that expert;
 - Obtains an understanding of the work of that expert; and
 - Evaluates the appropriateness of that expert's work as audit evidence for the relevant assertion.

Competence, Capabilities and Objectivity of a Management's Expert

14. The auditor makes reference to the requirements, application and other explanatory material contained in ASA 500 and evaluates whether the expert has the necessary competence, capabilities and objectivity for the auditor's purposes. This is ordinarily performed as part of the audit planning and risk assessment process but timing may be restricted by management's process for planning and selecting experts.
15. Experts may have professional obligations under their professional or industry bodies. These obligations vary significantly and are determined by the professional or industry body⁴. Auditors use their professional judgement when determining the competency of an expert. The auditor's confidence when assessing the competency of the expert may increase with membership of professional or industry bodies that:
- Require professional qualification or accreditation;
 - Subject their members to regulatory requirements/guidance;
 - Subject their members to a specific set of standards or guidance on the expert's services;
 - Require continuous professional development; and
 - Require professional obligations to be followed by their members.

Furthermore, the auditor's confidence in the expert may be influenced by the expert's work environment, for example the expert's internal quality control policies and procedures.

16. ASA 500 indicates that evidence from external sources is generally more reliable than that generated internally. The existence of a relationship between the expert and the entity being audited may impair the expert's ability to be objective. The risk that the objectivity of an expert will be impaired increases when the expert is employed by the entity or is related in some way to the entity. Where an expert is employed by the entity, the auditor needs to

³ See ASA 500, paragraph 8.

⁴ For example actuaries are governed by the Institute of Actuaries of Australia, an actuary's specific responsibilities in relation to data are set out in the *Actuarial Code of Professional Conduct, Actuarial Professional Standards* and where relevant other regulatory and legislative requirements, *APRA Prudential Standards* and the *Life Insurance Act 1995*.

consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of the expert that would impact on the objectivity of the expert. If the auditor is concerned with the competence or objectivity of the expert, the auditor communicates any reservations with management and if appropriate those charged with governance and considers whether sufficient appropriate audit evidence can be obtained concerning the work of the expert. The auditor may undertake additional procedures or seek audit evidence from another expert including an auditor's expert⁵.

17. Circumstances which may threaten the objectivity of the expert may include: advocacy threats, familiarity threats, self-review threats and self-interest threats⁶. Examples include economic dependency of the expert on the entity and contingency based fee arrangements.
18. When the expert is an employee of the entity, mitigating factors which enhance the ability of the expert to be objective, and therefore are safeguards for the lack of independence, include:
 - Adherence to the professional standards issued by the expert's regulating body.
 - Formal appointment of the expert by those charged with governance and direct access to those charged with governance by that expert.

Ordinarily, the basis on which the expert is remunerated and or incentives offered as part of that remuneration are considered by the auditor when assessing the expert's objectivity.

Consideration of the above may also be relevant in evaluating the objectivity of an expert that is external to the entity.

Obtaining an Understanding of the Work of a Management's Expert

19. The auditor makes reference to the requirements, application and other explanatory material in ASA 500 when obtaining an understanding of the expert's work to assess whether it is adequate for the purposes of the audit and obtains sufficient appropriate audit evidence.
20. When obtaining an understanding of the expert's work including making enquiries of management regarding the potential use of that work, the auditor, having regard to whether the expert is internal or external to the entity, considers:
 - The terms of the engagement between the entity and the expert including understanding the nature, timing and extent of work to be performed by the expert and the form of any report to be provided by that expert;
 - Whether the auditor has any prior knowledge of the expert's field of expertise, or with that expert;
 - The economic and competitive conditions impacting the entity and its operating results;
 - Whether there is evidence of undue management pressure on the expert;
 - The existence of controls within the entity over the work of the expert (for example whether there are procedures in place to challenge or review the expert's work, such as review by those charged with governance) or controls over the source data used in the expert's assessment;
 - Whether management has authorised their expert to discuss their findings or conclusions with the auditor⁷;

⁵ Refer ASA 620.

⁶ See ASA 500, paragraph A41.

⁷ Agreement for the expert to discuss findings with the auditor, and consent for the auditor to use the expert's findings, is generally discussed and agreed with management or those charged with governance and the expert at the planning phase of the engagement.

- Whether the expert has consented to the auditor's intended use of their findings⁷; and
 - Whether the expert has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement).
21. Where management has not consented for their expert to discuss their findings or conclusions with the auditor, or the expert has not consented to the auditor's intended use of their findings, the auditor considers the guidance as provided in paragraphs 29 and 30.

Engagement with the Management's Expert

22. As early as practicable during the engagement, the auditor communicates with the expert either directly or indirectly through management, and considers the expert's approach and methodology. The auditor assesses whether the approach and methodology is an appropriate basis for determination of the matter included in the financial report or other historical financial information. For example where management uses a valuation expert for a purchase price adjustment calculation, the auditor communicates with the expert early on in the valuation process so as to understand and agree on the basis for identification of assets and the basis of the valuation methodology.

Evaluating the Appropriateness and Adequacy of the work of a Management's Expert

23. ASA 500⁸ contains application and other explanatory material that when evaluating the appropriateness of the expert's work as audit evidence for the relevant assertion, the auditor considers:
- The relevance and reasonableness of the expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial report;
 - If the expert's work involves the use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
 - If the expert's work involves significant use of source data, the relevance, completeness and accuracy of that source data.

The Findings and Conclusions of the Management's Expert

24. The auditor considers the final findings and conclusions in the agreed form of report of the expert. The auditor using their professional judgement considers what additional procedures are required, particularly when the risk of material misstatement has been assessed as significant. The auditor may consider performing more extensive procedures or engaging an auditor's expert⁹ to review some or all of the work of the expert. Specific procedures to evaluate the reasonableness of the expert's work for the auditor's purposes may include:
- Enquiries of the expert.
 - Comparing the expert's final report to the draft report (if a draft report is provided) and understanding and enquiring into material differences.
 - Understanding the accuracy of prior period estimates made by that expert.
 - Corroborative procedures, such as:
 - observing the expert's work;
 - examining published data, such as statistical reports from reputable, authoritative sources;

⁸ See ASA 500, paragraph A48.
⁹ Refer ASA 620.

- confirming relevant matters with relevant third parties;
 - performing detailed analytical procedures; and/or
 - re-performing calculations including sensitivity analysis on key inputs.
- Consultation with another expert with relevant expertise when, for example, the findings or conclusions of the expert are not consistent with other audit evidence or the findings indicate an error, deviation, deficiency in internal control, or other significant matter or the scope of the engagement or adequacy of evidence is insufficient.
 - Discussion of the expert's report with management and if appropriate those charged with governance, including understanding their assessment of the expert's findings. In addition, if material, the auditor may seek to understand the reasons for the final report differing from initial draft reports.
25. Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the expert, whether in a report or other form, may include whether they are:
- Consistent with the auditor's understanding of the entity and its environment;
 - Clearly expressed, including reference to the objectives agreed with management, the scope of the work performed and standards applied;
 - Consistent with the results of other audit procedures;
 - Cross-checked against one or more other methodologies;
 - Based on an appropriate period/point in time and take into account events occurring after that date, 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, deviations, deficiencies in internal controls or other significant matters identified by the expert.

Assumptions, Methods and Source Data

Assumptions and Methods

26. When an 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 expert's field;
 - Justified as the appropriate valuation methodology;
 - Consistent with the requirements of the applicable financial reporting framework; and
 - Dependent on the use of specialised models.

The auditor then considers:

- The degree of estimation uncertainty associated with the expert's underlying assumptions and the degree of stress testing undertaken;
- Significant changes during the course of the audit that may affect the appropriateness of the assumptions used; and

- Robustness and appropriateness of models used.

Source Data Used by the Management's Expert

27. The auditor considers whether the source data is sufficiently relevant and reliable for their purposes, including evidence relating to the accuracy and completeness of the data and evaluating whether the data is sufficiently precise and detailed. The extent of the auditor's procedures is dependent on the nature and risk of the source data and the materiality of the underlying balance, transaction and/or disclosure to which it relates. When an 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:
- Identifying the source of the data, including obtaining an understanding of the data, and where applicable, testing the internal controls over the data and, where relevant, its transmission to the expert.
 - Assessing the data for completeness, accuracy and consistency with information available to the auditor.
28. In many cases, the auditor may test the source data directly. However, in other cases, when the nature of the source data used by the expert is highly technical in relation to the expert's field, that expert may test the source data. If the expert has tested the source data, the auditor considers the most appropriate way of evaluating whether the source data is sufficiently reliable for their purposes such as enquiry of that expert as to the scope and nature of the testing they performed, supervision or review of that expert's tests and/or the involvement of an auditor's expert¹⁰.

Conclusion on the Work Undertaken by the Expert

29. If the auditor determines that the work of the expert is not appropriate for the auditor's purposes, or does not address material errors, deviations, deficiencies in internal controls or other material matters, or does not constitute sufficient appropriate audit evidence, the auditor agrees with management on the nature and extent of further work to be performed by the expert; or performs additional audit procedures appropriate to the circumstances. The auditor may communicate this with those charged with governance. If the matter cannot be resolved, this is reported to those charged with governance and it may be necessary for the auditor to express a modified opinion in the auditor's report if the auditor cannot obtain sufficient appropriate audit evidence.
30. When the auditor concludes that the work of the expert is appropriate for the auditor's purposes, the auditor may accept that expert's findings or conclusions as appropriate audit evidence. The auditor then determines whether the expert's findings or conclusions have been accurately reflected in the financial report or other historical financial information including relevant disclosures.

Documentation

31. In assessing the extent of documentation, the auditor considers what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand the auditor's:
- Assessment of whether to use the work of the expert;
 - Assessment of the competence, capabilities and objectivity of the expert;
 - Assessment of the nature, timing, and extent of the expert's work;

¹⁰ Refer to ASA 620.

- Evaluation of the results of procedures and the audit evidence obtained in evaluating the appropriateness and adequacy of the expert's work;
- Assessment and conclusions around errors, deviations, deficiencies in internal controls and other material matters identified by the expert;
- Assessment of the conclusions reached by the expert including the auditor's application of professional scepticism in the assessment of those conclusions; and
- Conclusion on the work undertaken by the expert.

The auditor ordinarily includes in their documentation relevant extracts from the expert's work including the conclusions reached.

Reference to the Work of a Management's Expert in the Auditor's Report

32. The auditor does not refer to the work of the 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 indicates in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.
33. If the auditor makes reference to the work of the expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor indicates in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Communication with Those Charged with Governance and Others

34. Due to uncertainties that may be associated with the work undertaken by an expert, the potential effects on the financial report and/or other historical financial information of any significant risks are likely to be of governance interest.
35. *ASA 260 Communication with Those Charged with Governance* contains the auditor's responsibility to communicate with those charged with governance in an audit of a financial report. In relation to using the work of an expert, the auditor, using professional judgement, may communicate:
 - Concerns regarding competency or objectivity of the expert;
 - Materiality and risk of the subject matter subject to determination by the expert;
 - The proposed intended use of the expert's work by the auditor;
 - Key findings/conclusions of the expert's report including commentary on:
 - Significant assumptions used;
 - Degree of subjectivity of assumptions;
 - Whether the expert's work is adequate for audit purposes and obtains appropriate audit evidence; and
 - Significant differences in judgement between the auditor and expert.

The appropriate timing for communications will vary with the circumstances of the engagement; however, it may be appropriate to communicate significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion.

Conformity with International Pronouncements

36. There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.