



Project Plan

Agenda Item	9.0
Strategic AUASB project:	Audit Quality – Working Collaboratively with the Audit Regulator, Practitioners, and Others in the Financial Reporting Supply Chain
Sub-project	Using the work of a management’s expert
Priority:	Medium
Date Prepared:	13 November 2018
Date To Be Approved:	4 December 2018

A. Project Objectives

To work together with the audit regulator and practitioners to respond appropriately to audit and assurance issues identified through inspection reports as well as where the firms are finding internal practice issues with the use of the standards. The aim of this process is to identify how the AUASB, as a stakeholder in the financial reporting supply chain, can assist in the improvement of audit quality, by filling gaps/needs in the suite of standards and guidance. It is not the role nor the objective of the AUASB to arbitrate on disagreements within a firm or with external parties, or to resolve matters of application or exercise of professional judgement.

B. Actions requested from AUASB

1. Approval to proceed with a revision to GS 005 *Using the work of a management’s expert*; and
2. Agreement of due process proposals contained in section D4 below

C. Background

1. The audit technical group (ATG) met with the big 6 audit firms to identify areas of the auditing standards that may require clarification or guidance, as identified through internal quality review findings or, external inspection findings.
2. The ATG summarised the findings and came up with a summary of matters that had been raised consistently across the firms – these findings were shared with ASIC and the AUASB.
3. The ATG and the AUASB Chair met with ASIC to discuss the findings as well as discussing a possible way forward on some of these matters.
4. The ATG presented the AUASB with a paper at the September 2018 AUASB meeting that summarised the areas that the ATG had identified as potentially being appropriate for supporting some form of guidance from the AUASB. These were the areas where the ATG considered could be clarified with reference to exiting content within the standards.

Way forward as agreed at the September 2018 AUASB meeting

5. At the September 2018 AUASB meeting the AUASB agreed for the ATG in principle to investigate work on 2 areas:
 - a. In relation to revenue:
 - i. Is revenue always a significant risk? (not only because of fraud, but also quantitative factors).

- ii. Can the presumed risk of fraud in relation to revenue be rebutted at the account level or is it necessary to rebut for each significant assertion?
- b. Using the work of experts – including:
 - i. What is the extent of documentation/work papers on file/nature of work papers on file or extent of involvement?
 - ii. When it comes to challenging assumptions/inputs/sample sizes/conclusions of management’s experts – how much is enough questioning.
 - iii. When management engages a management’s expert, how much work is required to be done by the auditor on that work and is there an expectation of always using an auditor’s expert to examine the work of a management’s expert
- 6. For the matters identified above, it was agreed that the ATG could commence working on what a “solution” may look like with the ATG commenting that for the revenue matters, the way forward may be suited to a Q&A/bulletin type publication, while for the use of expert matters, this may be better suited to a bulletin or a possible reopening of GS 005 *Using the Work of a Management’s Expert* (GS 005).

D. Update for 4/5 December 2018 AUASB meeting – project plan proposal

The project plan below relates to a proposal addressing using the work of experts. The revenue issue will be addressed at a separate meeting under a separate proposal. The prioritisation of the experts projects is based on feedback received from the ATG’s meetings with the big 6 audit firms.

1. *Scope:*

In relation to the matters raised in paragraph C 5(b) above, the ATG consider that there are a number of matters that need to be addressed in relation to use of management’s experts, including:

- a. Linkage of Proposed ASA 540 *Auditing Accounting Estimates and Related Disclosures* to ASA 500 *Audit Evidence* paragraph 8, particularly in light of the new requirement (para 30) and application material (A3 and A130-A131) in proposed ASA 540 in relation to using the working of a management’s expert, in auditing estimates and related disclosures. This linkage will provide clarity in relation to the matter raised in C 5(b)(i) and (ii). Exerts from the standards are contained in the Appendix to this Board Meeting Summary Paper.
- b. Linkage of ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information* and ASA 620 *Using the Work of an Auditor’s Expert* into using the work of a management’s expert. Currently GS 005 does not reference these 2 standards, this was purposeful so as to not confuse a management’s expert with that of an auditor’s expert. This revision will create a link between the standards. This linkage will provide clarity in relation to the matter raised in C 5(b)(iii).
- c. Providing more guidance and examples in relation to assessing competence and capabilities of management’s expert and obtaining understanding and evaluating appropriateness and adequacy of the work of a management’s expert. This linkage will provide clarity in relation to the matter raised in C 5(b)(i)-(iii).
- d. Providing additional guidance in relation to documentation/work papers. This linkage will provide clarity in relation to the matter raised in C 5(b)(i).

2. *Options for addressing the above:*

Options	Advantages	Disadvantages
Revise GS 005	<ul style="list-style-type: none"> • more authoritative than a bulletin as it is a pronouncement under the AUASB Forward • more longevity than a bulletin • background content already exists • single reference point 	<ul style="list-style-type: none"> • due to due process – takes longer to work through and issue than a bulletin • may be viewed as AUASB interpretation of standards (even though they do not establish new principles)
Bulletin	<ul style="list-style-type: none"> • quicker to issue – not considered to be an AUASB pronouncement under the AUASB Forward 	<ul style="list-style-type: none"> • not authoritative – used to raise general awareness only • results in multiple reference points • potential duplication of content from GS 005 • may be viewed as AUASB interpretation of standards • less longevity than a guidance statement
Do nothing	<ul style="list-style-type: none"> • AUASB will not be viewed as interpreting standards. 	<ul style="list-style-type: none"> • GS 005 is not complete and up to date particularly in view of the revised ASA 540. • AUASB not assisting practitioners with practise issues that are standards related.

The ATG recommends revision of GS 005 to address the matters included under the scope paragraph D1 above.

3. *Risks identified if GS 005 is revised:*

- a. A revision to ISA 500 *Audit Evidence* is on the IAASB agenda with an exposure draft forecast for December 2020. ISA 500 is the primary source of requirements and application material in relation to using the work of a management's expert, accordingly any revision to ISA 500 would probably include updating the requirements and guidance in relation to such work. Owing to the timeframe of the IAASB project, the ATG considers that this should not be a barrier to a revision to GS 005.
- b. The AUASB is viewed as interpreting the standards and that such an interpretation may be different to how other National Standard Setters interpret the requirements of the standards relating to the use of management's experts, particularly ASA 220, ASA 500, ASA 540 and ASA 620. The ATG considers this risk can be mitigated by:
 - implementing appropriate due process steps in the revision of GS 005 – refer below
 - linking GS 005 to requirements and application material that already exists in the suite of standards, particularly with reference to the standards listed above.

4. *ATG Recommendations for due process to revise GS 005:*

- a. With support from the AUASB, the ATG to establish a project advisory group to provide input into a proposed revision to GS 005. Owing to the nature of the subject matter, the ATG proposes a limited project advisory group to be chaired by an AUASB

member and consisting of practitioners representing the Big 6, as well as representatives from CAANZ and CPA.

- b. Separate to the project advisory group, the ATG to keep ASIC involved in the update to GS 005 and seek ASIC feedback and input on proposed revisions.
- c. Conduct research into this area including:
 - involving and having input from other NSS, particularly New Zealand and Canada. CPA Canada already have an implementation tool for auditors on using the work of a management's expert issued in April 2017, that closely aligns to the AUASB extant GS 005 and in view of the revised ISA 540 may be interested in any revisions that the AUASB make to GS 005.
 - seeking to understand what recent research papers on using the work of experts in the audit has been undertaken and understanding whether such research has any bearing on the project proposal/plan.

5. *Next Steps*

- a. The ATG will work with the AUASB Chair, Technical Director and Project Sponsor to consider the composition of the PAG, we expect the PAG to comprise practitioners and representatives of the Professional Bodies.
- b. The ATG in conjunction with the AUASB Chair will set up a meeting with the Canadian and New Zealand NSS to determine and understand any input/involvement that can be co-ordinated.

6. *Timeline*

- a. The ATG will aim to set up the first PAG meeting in February 2019;
- b. The ATG will aim to have a revised GS 005 ready for the June 2019 AUASB meeting.



APPENDIX TO GS 005 PROJECT PLAN

PARAGRAPH REFERENCES

Paragraph references

ASA 500/paragraph 8

8. If information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary, having regard to the significance of that expert's work for the auditor's purposes: (Ref: Para. A34-A36)
- (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A37-A43)
 - (b) Obtain an understanding of the work of that expert; and (Ref: Para. A44-A47)
 - (c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Ref: Para. A48)

ASA 540/paragraph 30

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ASA 500.

When using the work of a management's expert, the requirements in paragraphs 21–29 of this Auditing Standard may assist the auditor in evaluating the appropriateness of the expert's work as audit evidence for a relevant assertion in accordance with paragraph 8(c) of ASA 500. In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity with the expert's field of expertise. (Ref: Para. A126–A132)

ASA 540/paragraph A3

- A3. Assumptions involve judgements based on available information about matters such as the choice of an interest rate, a discount rate, or judgements about future conditions or events. An assumption may be selected by management from a range of appropriate alternatives. Assumptions that may be made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate.

ASA 540/paragraphs A130 – A131

- A130. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate. Accordingly, the auditor applies the relevant requirements in this Auditing Standard to those assumptions.
- A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial report, the requirements in paragraphs 21–29 of this Auditing Standard may assist the auditor in applying paragraph 8(c) of ASA 500.