



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **4**

Meeting Date: 13 June 2019

Subject: GS 005 Using the Work of a Management's Expert

Date Prepared: 4 June 2019

Action Required

For Information Purposes Only

Agenda Item Objectives:

To inform the AUASB on the progress to the revision of GS 005 *Using the Work of a Management's Expert*.

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. 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.
2. 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.
3. 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.
4. At the 4/5 December 2018 AUASB meeting, the AUASB approved the Project Plan to revise GS 005.

This document contains preliminary views and/or AUASB Technical Group recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

Purpose of Revision:

5. Using the work of a management's expert has expanded in practice. This has been largely led by changes in financial reporting frameworks and changes in current thinking in this area across jurisdictions. Examples of such changes include the release of the new standard on auditing accounting estimates (ASA 540) and the PCAOB amendments to its standards (AS 1105 *Audit Evidence* Appendix A) for using the work of specialists. Additionally, in recent times, this area has been the subject of internal and external audit file reviews. As a result of these changes the AUASB has become aware that the current GS 005 does not reflect current practice in this area, so in order to enhance audit quality in the area of management's experts and provide additional guidance to practitioners so that there can be consistently rigorous practices among audit firms of all sizes, the AUASB agreed to revise GS 005.

Principles underpinning the revision:

6. The revision needs to improve audit quality in the area of using the work of a management's expert by increasing auditor's focus when using that work, particularly when that work is significant in areas of higher risk. By enhancing the guidance for evaluating the work of a management's expert, reflecting the requirements of ASA 500, ASA 620, ASA 540 and other leading national jurisdictions guidance/standards, the expected audit effort in this area is expected to be made clearer, thereby resulting in a consistent and appropriate approach to auditing this area, thus enhancing audit and assurance quality.
7. The public interest needs of consistent and appropriate application of auditing and assurance standards and guidance needs to be achieved. Accordingly the revision needs to provide guidance around the requirements already contained within ASA 500, ASA 540 (revised) and ASA 620.
8. To achieve international consistency of interpretation, the revision of the guidance will need to consider interpretation of recently updated guidance / standard of using the work of a management's expert in other leading national jurisdictions.
9. The revision needs to provide sufficient and appropriate guidance so that interpretation of the expectations of auditors in this area is consistent across user groups including practitioners and regulators.

Consultation / research that has occurred on revision to GS 005

10. The AUASB approved the setting up, of a Project Advisory Group (December 2018) to advise the writing of this guidance, and given the need to reflect best current practice it was decided to involve practitioners. Each practitioner (including Public Sector) on the AUASB nominated an appropriate person from their respective firms to provide input into the revision of GS 005, all feedback from 6 practitioner firms as well as the QAO have been incorporated into the draft Guidance Statement. Two teleconferences have been held on this subject matter to progress the revision to the guidance statement.
11. Reference to the requirements and guidance of ASA 500 Audit Evidence, ASA 540 Auditing Accounting Estimates and Related Disclosures and ASA 620 Using the Work of an Auditor's Expert.
12. Review of CPA Canada Implementation tool for auditors Using the Work of a Management's Expert (April 2017) – which is evaluated as fairly aligned to the extant GS 005.
13. Review of PCAOB Release No 2018-006 Amendments to Auditing Standards for Auditor's Use of the Work of Specialists, where the PCAOB sought to enhance the testing and evaluation of the work

of a company's specialist designed to increase audit attention in areas where a specialist is used and to align the applicable requirements with the PCAOB's risk assessment standards.

14. Review of South African Institute of Chartered Accountants Frequently Asked Questions (October 2018): When information to be used as audit evidence involves the work of experts. The purpose of the FAQ was to address uncertainty about the meaning of a management's expert and an auditor's expert, the differences between these experts and the differing levels of work effort to be applied by the auditor in complying with the requirements of the ISAs when information to be used as audit evidence involves the work of these experts.

Principles that have come out of the findings from the research above that have been incorporated into the proposed revised GS 005:

15. Using the work of a management's expert needs to be scalable to the circumstances of an engagement so that the auditor's work to evaluate the work of a management's expert is commensurate with the risk of material misstatement associated with the financial statement assertion to which the experts work relates and the significance of the experts work to that assertion. To this end and consistent with PCAOB Release No 2018-006 Appendix 3 Discussion of Amendments Page A3-22-25, the guidance centres around the principle that more persuasive evidence (independent audit procedures) is needed as the risk of material misstatement increases, or where knowledge/skill/competency of the expert is not able to be assessed as high or where the management's expert lacks objectivity. PCAOB Release No 2018-006 Appendix 3 Discussion of Amendments Page A3-14/15 notes that the auditor's assessment that the company has the ability to influence the specialist, does not preclude the auditor from using the work of a company's specialist, whether employed or engaged, as audit evidence. Rather, it is a factor in determining the necessary audit effort to evaluate that specialist's work.
16. With these principles in mind the guidance statement has been significantly expanded in the areas of assessing knowledge/skill/competency and objectivity of a management's expert and the resulting impact of the auditor's assessment on the extent of auditor's procedures on the work of a management's expert.
17. Engagement Partners or personnel available in the audit firms today that can be included in the engagement team often have the expertise to evaluate the work of management's experts. The revisions explain that there may not always be the need to involve an auditor's expert and there is no requirement in the standard to do so. However, GS 005 recognises that whether or not to involve an auditor's expert is an area of professional judgement and the revised guidance statement provides extensive guidance to auditor's to assist in this area.
18. The revisions clarify the auditor's responsibilities for evaluating the work of a management's expert and avoids potential confusion that the auditor is required to reperform the work of the management's expert (PCAOB Release No 2018-006 Appendix 3 Discussion of Amendments Page A3-19). To this end, and consistent with the PCAOB standard, the revised guidance statement uses the word 'evaluate' rather than 'test'. Evaluate still requires independent audit evidence and assurance in relation to that work but not to the same extent as reperformance. The PCAOB standard reserve the use of the term "test" for procedures applied to company-produced information used by the specialist
19. The revisions increase auditor's attention on the work of management's experts and the guidance is significantly expanded across the guidance statement particularly in relation to evaluation of the work of the auditor's expert around methods, assumptions and data. Again, the guidance indicates that independent audit evidence and assurance in relation to that work is needed and accepting the work of a management's expert as audit evidence without independent audit procedures around that work would not meet the requirements of ASA 500 or ASA 540 and would not be following the guidance of GS 005 as this would not be considered 'assessing' the work of the management's expert.

20. As financial reporting frameworks continue to evolve and require greater use of estimates, accounting estimates have become both more prevalent and significant. As a result, the use of the work of management's experts also continues to increase in both frequency and significance. If a management's expert's work is not properly evaluated by the auditor, there may be a heightened risk that the auditor's work will not be sufficient to detect a material misstatement in accounting estimates. With the revised auditing standard on accounting estimates, the revisions to the guidance statement provide clear guidance on when a management's expert has been used in relation to auditing accounting estimates, with the updated guidance aligning to the requirements of ASA 540. The AUASB technical group have sought interpretation from the ISA 540 taskforce regarding the extent of audit procedures expected around data in relation to auditing accounting estimates, where data has been tested by a management's expert. Until such time as interpretation is received from the IAASB, GS 005 has been revised to reflect the words used in ASA 540.

Next Steps

21. The Audit Technical Group (ATG) and the Chair of the AUASB met with ASIC on 3 June 2019. ASIC provided the ATG with some high level considerations but intends to review in detail the draft GS 005 and supporting documentation as provided by the ATG. The ATG will meet with ASIC in late June 2019 to obtain and consider ASIC feedback which will be then shared with the PAG.
22. The AUASB response to the IAASB's Proposed Strategy and Work Plan for 2020 – 2023, will include a specific reference for the IAASB to provide implementation guidance around the use of management's experts in the context of ISA 540 as this area has a direct link into GS 005.
23. The ATG intends to bring a draft of the revised GS 005 to the September 2019 AUASB meeting for AUASB consideration and input.