

SA 620 (AAS 9)

USING THE WORK OF AN EXPERT

*(Effective for all audits relating to
accounting periods beginning on or after April 1, 1991)*

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Standard on Auditing (SA) 620*, "Using the Work of an Expert" should be read in the context of the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services"¹, which sets out the authority of SAs.

* Issued in December, 1991.

¹ Published in the July 2007 issue of the Journal.

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Introduction

1. Standard on Auditing (SA) 200, "Basic Principles Governing an Audit", states (paragraphs 9-10):

"When the auditor delegates work to assistants, or uses work performed by other auditors and experts, he will continue to be responsible for forming and expressing his opinion on the financial information. However, he will be entitled to rely on work performed by others, provided he exercises adequate skill and care and is not aware of any reason to believe that he should not have so relied. In the case of any independent statutory appointment to perform the work on which the auditor has to rely in forming his opinion, such as in the case of the work of branch auditors appointed under the Companies Act, 1956, the auditor's report should expressly state the fact of such reliance."

"The auditor should carefully direct, supervise and review work delegated to assistants. The auditor should obtain reasonable assurance that work performed by other auditors or experts is adequate for his purpose."

This Standard discusses the auditor's responsibility in relation to, and the procedures the auditor should consider in, using the work of an expert as audit evidence. In this Standard, the term 'financial information' encompasses financial statements.

2. The auditor's education and experience enable him to be knowledgeable about business matters in general, but he is not expected to have the expertise of a person trained for, or qualified to engage in, the practice of another profession or occupation, such as an actuary or engineer.

3. An expert (or a specialist), for the purpose of this Statement, is a person, firm or other association of persons possessing special skill, knowledge and experience in a particular field other than accounting and auditing. An 'expert' may be:

- ◆ engaged by the client,
- ◆ engaged by the auditor,
- ◆ employed by the client, or

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- ◆ employed by the auditor.

4. When the auditor uses the work of an expert employed by him, he is using that work in the employee's capacity as an expert rather than delegating the work to an assistant on the audit. Accordingly, in such circumstances, he should apply relevant procedures described in this Statement in satisfying himself as to his employee's work and findings.

Determining the Need to Use the Work of an Expert

5. During the audit, the auditor may seek to obtain, in conjunction with the client or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert. Examples are:

- ◆ Valuations of certain types of assets, for example, land and buildings, plant and machinery, works of art, and precious stones.
- ◆ Determination of quantities or physical condition of assets, for example, minerals stored in stockpiles, mineral and petroleum reserves, and the remaining useful life of plant and machinery.
- ◆ Determination of amounts using specialised techniques or methods, for example, an actuarial valuation.
- ◆ The measurement of work completed and to be completed on contracts in progress for the purpose of revenue recognition.
- ◆ Legal opinions concerning interpretations of agreements, statutes, regulations, notifications, circulars, etc.

6. When determining whether to use the work of an expert or not, the auditor should consider:

- ◆ the materiality of the item being examined in relation to the financial information as a whole,
- ◆ the nature and complexity of the item including the risk of error therein, and
- ◆ the other audit evidence available with respect to the item.

Skills and Competence of the Expert

7. When the auditor plans to use the expert's work as audit evidence, he should satisfy himself as to the expert's skills and competence by considering the expert's:

- ◆ professional qualifications, licence or membership in an appropriate

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professional body, and

- ◆ experience and reputation in the field in which the evidence is sought.

However, when the auditor uses the work of an expert employed by him, he will not need to inquire into his skills and competence.

Objectivity of the Expert

8. The auditor should also consider the objectivity of the expert. The risk that an expert's objectivity will be impaired increases when the expert is:

- ◆ employed by the client, or
- ◆ related in some other manner to the client.

Accordingly, in these circumstances, the auditor should (after taking into account the factors in paragraphs 6 and 7) consider performing more extensive procedures than would otherwise have been planned, or he might consider engaging another expert.

Evaluating the Work of an Expert

9. When the auditor intends to use the work of an expert, he should examine evidence to gain knowledge regarding the terms of the expert's engagement and such other matters as :

- ◆ the objectives and scope of the expert's work,
- ◆ a general outline as to the specific items in the expert's report,
- ◆ confidentiality of the expert's work, including the possibility of its communication to third parties,
- ◆ the expert's relationship with the client, if any,
- ◆ confidentiality of the client's information used by the expert.

10. The auditor should seek reasonable assurance that the expert's work constitutes appropriate audit evidence in support of the financial information, by considering:-

- ◆ the source data used,
- ◆ the assumptions and methods used and, if appropriate, their consistency with the prior period, and
- ◆ the results of the expert's work in the light of the auditor's overall knowledge of the business and of the results of his audit procedures.

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The auditor should also satisfy himself that the substance of the expert's findings is properly reflected in the financial information.

11. The auditor should consider whether the expert has used source data which are appropriate in the circumstances. The procedures to be applied by the auditor should include:

- ◆ making inquiries of the expert to determine how he has satisfied himself that the source data are sufficient, relevant and reliable, and
- ◆ conducting audit procedures on the data provided by the client to the expert to obtain reasonable assurance that the data are appropriate.

12. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the expert. The auditor does not have the same expertise and, therefore, cannot always challenge the expert's assumptions and methods. However, the auditor should obtain an understanding of those assumptions and methods to determine that they are reasonable based on the auditor's knowledge of the client's business and on the results of his audit procedures.

13. Normally, completion of the above procedures will provide the auditor with reasonable assurance that he has obtained appropriate audit evidence in support of the financial information. In exceptional cases where the work of an expert does not support the related representations in the financial information, the auditor should attempt to resolve the inconsistency by discussions with the client and the expert. Applying additional procedures, including possibly engaging another expert, may also assist the auditor in resolving the inconsistency.

14. If, after performing these procedures, the auditor concludes that:

- ◆ the work of the expert is inconsistent with the information in the financial statements, or that
- ◆ the work of the expert does not constitute sufficient appropriate audit evidence (e.g., where the work of the expert involves highly technical matters or where, on grounds of confidentiality, the expert refuses to make available to the auditor the source data used by him),

he should express a qualified opinion, a disclaimer of opinion or an adverse opinion, as may be appropriate.

Reference to an Expert in the Auditor's Report

15. When expressing an unqualified opinion, the auditor should not refer to the work of an expert in his report. If, as a result of the work of an expert, the auditor decides to express other than an unqualified opinion, it may in some circumstances benefit the reader of his report if the auditor, in explaining the nature of his reservation, refers to or describes the work of the expert. Where, in doing so, the auditor considers it appropriate to disclose the identity of the expert, he should obtain prior consent of the expert for such disclosure if such consent has not already been obtained.

Effective Date

16. This Standard on Auditing becomes operative for all audits relating to accounting periods beginning on or after April 1, 1991.

GENERAL CLARIFICATION (GC)–AASB/1/2002 ON SA 620

Standard on Auditing (SA) 620, Using the Work of an Expert

{The following is the General Clarification (GC)-AASB/1/2002 issued by the Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India on Standard on Auditing (SA) 620, “Using the Work of an Expert.”}

1. Paragraph 12 of SA 620 provide as under:

“12. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the expert. The auditor does not have the same expertise and, therefore, cannot always challenge the expert’s assumptions and methods. However, the auditor should obtain an understanding of those assumptions and methods to determine that they are reasonable based on the auditor’s knowledge of the client’s business and on the results of his audit procedures.”

2. The auditor while verifying the accrued liability for retirement benefits or for Group Gratuity Schemes has to use the work of an another expert, i.e., actuary or the insurer itself. In such a case, the issue to be considered is whether it is sufficient for the auditor to rely on the certificate given by insurer or actuary without establishing the reasonableness of the assumptions made by the actuary or the insurer based on the auditor’s knowledge of the client’s business. It is clarified that the auditor should, while using the certificate issued by the actuary or the insurer, obtain an understanding of the methods used by the actuary or the insurer in determining the liability and should also judge the appropriateness and reasonableness of assumptions, for example, with regard to the following:

- (i) Rate of Return
- (ii) Number of Employees
- (iii) Retirement Age
- (iv) Salaries
- (v) Promotion Policies
- (vi) Age of Employees