Contents

CHAPTER 4 600-699 USING WORK OF OTHERS

1. SA-600 USING THE WORK OF ANOTHER AUDITOR

OBJECTIVE OF SA 600

When the auditor delegates the 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 financial information.

ACCEPTANCE AS PRINCIPAL AUDITOR

The auditor should consider whether the auditor's own participation is sufficient to be able to act as a Principal auditor. For this purpose the auditor would consider:

a. The **materiality** of the portion of the financial information which the principal auditor audits.
b. The principal auditor's **degree of knowledge** regarding the business of the components.
c. The **risk of material mis-statements** in the financial information of the component audited by the other auditor; and
d. The **performance of additional procedures** as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

THE PRINCIPAL AUDITOR'S PROCEDURE

1. When planning to use the work of another auditor, the principal auditor should consider the **professional competence** of the other auditor in the context of specific assignment if the other auditor is not a member of the ICAI.
2. The principal auditor should **perform procedures** to obtain sufficient appropriate audit evidence, that the **work** of the other auditor is **adequate** for the principal auditor's purposes, in the context of specific assignments. When using the work of another auditor, the principal auditor ordinarily **perform** the **following procedures**.
   a. **Advice the other auditor** of the **use** that is to be made of the other auditor's work and report.
   b. **Advice the other auditor** of the significant accounting, auditing and **reporting requirements**.
   c. Principal auditor may require another auditor to **submit questionnaire** w.r.t. work performed by him.
   d. The principal auditor should consider the **significant findings** of the other auditor.
3. The principal auditor should **document** in his working papers the **components** whose financial information was audited by another auditor.

CO-ORDINATION BETWEEN AUDITORS

1. There should be **sufficient liaison** between the principal auditor and the other auditor.
2. For this purpose, the principal auditor may find it necessary to issue **written communications** to the other auditor.
3. The other auditor, knowing the context in which his work is to be used by the principal auditor, should **co-ordinate** with the principal auditor.
4. **For example**, by bringing to the principal auditor's immediate attention any **significant findings** requiring to be dealt with at entity level, adhering to the **time table** for audit of the component, etc.
5. He should ensure compliance with the relevant **statutory requirements**.

6. Similarly, the principal auditor should **advice the other auditor** of any matters that come to his attention that he thinks may have an important bearing on the other auditor's work.

REPORTING CONSIDERATIONS

When the principal auditor concludes, based on his procedures,

- That the work of the other auditor cannot be used and
- The principal auditor has not been able to perform sufficient **additional procedures** regarding the financial information of the component audited by the other auditor,

The principal auditor should express a **qualified opinion or Disclaimer of opinion** because there is a limitation on the scope of audit.

DIVISION OF RESPONSIBILITY

1. When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditor, his **report** should **state clearly** the division of responsibility for the financial information an opinion of the entity **by indicating** the extent to which the financial information of components **audited by other auditor** have been included in the financial information of the entity.
2. **Example** - The number of divisions' branches/subsidiaries or other components audited by other auditors.
3. It is not necessary that principal auditor will qualify his report if other auditors who have audited the components have given any qualified report.

1. SA-610 USING THE WORK OF INTERNAL AUDITORS

OBJECTIVE OF SA 610

The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are to determine:

a. Whether, and to what extent, to use specific work of the internal auditors; and
b. If so, whether such work is adequate for the purposes of the audit.

RELATIONSHIP BETWEEN THE INTERNAL AUDIT FUNCTION AND THE EXTERNAL AUDITOR

1. The **role and objectives** of the internal audit function are **determined by management** and, where applicable, TCWG.
2. While the **objectives** of the internal audit function and the external auditor are **different**, **some** of the **ways** in which the internal audit function and the external auditor achieve their respective **objectives may be similar**.
3. Irrespective of the degree of autonomy and objectivity of the internal audit function, such function is **not independent** of the entity as is required of the external auditor when expressing an opinion on FS.
4. The **external auditor has sole responsibility** for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of internal auditors.

DETERMINING WHETHER AND TO WHAT EXTENT TO USE THE WORK OF THE INTERNAL AUDITORS

1. Determining Adequacy & Planned Effect:

The external auditor shall determine:

a. Whether the **work** of internal auditors is likely to be **adequate** for purposes of the audit;
b. If so, the **planned effect of the work** of the internal auditors on the nature, timing or extent of the external auditor's procedures.

2. Factors in determining Adequacy:

In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall **evaluate**:

a. The **objectivity** of the internal audit function;
b. The **technical competence** of the internal auditors;
c. Whether the **work** of the internal auditors is **carried out with due professional care**; and
d. Whether there is **effective communication** between internal and the external auditor.

3. Factors in determining Planned effect:

In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the external auditor's procedures, the external auditor shall consider:

a. The **nature and scope** of specific work performed/to be performed, by internal auditors;
b. The **assessed risks** of material misstatement at the assertion level for particular classes of transactions, account balances, and disclosures; and
c. The **degree of subjectivity** involved in the evaluation of the audit evidence gathered by the internal auditors in support of the relevant assertions.

USING SPECIFIC WORK OF THE INTERNAL AUDITORS

1. In order for the external auditor to use specific work of the internal auditors, the external auditor shall **evaluate and perform audit procedures** on that work to determine its adequacy for the external auditor's purposes.
2. To determine the **adequacy of specific work performed** by the internal auditors for the external auditor's purposes, the external auditor shall **evaluate** whether:
   - Work was performed by internal auditors having adequate **technical training** & proficiency;
   - The work was properly **supervised, reviewed** and documented;
   - **Adequate audit evidence** has been obtained to enable him to draw reasonable conclusions;
   - **Conclusions** reached are **appropriate** in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed and
   - Any **exceptions/unusual matters disclosed** by the internal auditors are properly **resolved.**

DOCUMENTATION

The external auditor shall **document conclusions** regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work.

1. SA-620 USING THE WORK OF AN AUDITOR'S EXPERT

OBJECTIVE OF SA 620

The objectives of auditor are to determine whether:

1. To use the work of auditor's expert &
2. That work is adequate for his purpose

SA NOT APPLICABLE WHEN

1. Engagement team includes a member, who is expert in area of accounting/auditing,
2. Auditor's use of management's expert.

AUDITOR'S RESPONSIBILITY

1. Auditor has **sole responsibility** of his audit opinion.
2. His responsibility is **not reduced** by using auditor's expert.
3. However, he may accept the work of auditor's expert as evidence if he concludes that auditor's expert is **adequate**.

DETERMINING THE NEED FOR AUDITOR'S EXPERT

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**.

NATURE, TIMING AND EXTENT OF AUDIT PROCEDURES

The nature, timing and extent of the auditor's procedures with respect to the requirements of this SA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including:

- **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 expert;
- **e.** Whether that expert is subject to auditor's firm's **quality control policies & procedures**.

THE COMPETENCE, CAPABILITY AND OBJECTIVITY OF AUDITOR'S EXPERT'S

1. The auditor shall evaluate whether the auditor's expert has the **necessary competence, capabilities and objectivity** for the auditor's purposes.
2. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding **interests and relationships** that may create a threat to that expert's objectivity.

OBTAINING THE UNDERSTANDING THE FIELD OF EXPERTISE OF AUDITOR'S EXPERT

The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:

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

AGREEMENT WITH AUDITOR'S EXPERT

The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:

- **a.** The **nature, scope and objectives** of that expert's work;
- **b.** The **respective roles** and responsibilities of the auditor and that expert;
- **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
- **d.** The **need** for the auditor's expert to observe confidentiality requirements.

EVALUATING ADEQUACY OF AUDITOR'S EXPERT'S WORK

The auditor shall **evaluate** the adequacy of the auditor's expert's work for the auditor's purposes, including:

- **a.** The **relevance and reasonableness** of that expert's **findings or conclusions**, and their **consistency** with other audit evidence;
- **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

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.

REFERENCE TO AUDITOR'S EXPERT IN AUDITOR'S REPORT

1. **In case of unmodified opinion:**
   - Auditor shall **not refer to work** of auditor's expert in the **report** containing unmodified opinion **unless required by law / regulations** to do so.
   - If required by law/regulations, he shall indicate in auditor's report that such reference does not reduce auditor's responsibility for the audit opinion.
2. **In case of modified opinion:**
   - He shall **refer to work of auditor's expert** if such reference is **necessary for understanding** the nature of modification.
   - He shall indicate that such reference does not reduce auditor's responsibility for the audit opinion.

GENERAL CLARIFICATION (GC)–AASB/1/2002 ON SA 620, USING THE WORK OF AN EXPERT

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:

a. Rate of Return
b. Number of Employees
c. Retirement Age
d. Salaries
e. Promotion Policies
f. Age of Employees