

STATEMENT OF AUDITING STANDARDS
520
USING THE WORK OF AN EXPERT

*(Effective for audits of financial statements for periods beginning before 15 December 2004)**

<i>Contents</i>	<i>Paragraphs</i>
Introduction	1 - 6
Determining the need to use the work of an expert	7 - 9
Competence and objectivity of the expert	10 - 14
Scope of the expert work	15 - 16
Assessing the work of the expert	17 - 23
Reference to an expert in the auditors' report	24 - 27
Compliance with International Standards on Auditing	28
Effective date	29

* HKSA 620 "Using the Work of an Expert" is effective for audits of financial statements for periods beginning on or after 15 December 2004.

STATEMENT OF AUDITING STANDARDS
520
USING THE WORK OF AN EXPERT

*Statements of Auditing Standards (SASs) are to be read in the light of SAS 010 "The scope and authority of auditing pronouncements". In particular, they contain basic principles and essential procedures, (auditing standards), indicated by paragraphs in **bold italic type**, with which auditors are required to comply in the conduct of any audit including those of companies applying section 141D of the Companies Ordinance. SASs also include explanatory and other material which is designed to assist auditors in interpreting and applying auditing standards.*

Introduction

1. The purpose of this Statement of Auditing Standards (SAS) is to establish standards and provide guidance on using the work of an expert as audit evidence.
2. ***When using the work performed by an expert, the auditors should obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit. (SAS 520.1)***
3. "Expert" means a person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing.
4. The auditors' education and experience enable them to be knowledgeable about business matters in general, but the auditors are 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 a surveyor or an actuary.
5. Auditors have sole responsibility for their opinion, but may use the work of an expert. An expert may be:
 - a. engaged by the entity;
 - b. engaged by the auditors;
 - c. employed by the entity; or
 - d. employed by the auditors.
6. When the auditors use the work of an expert employed by the auditors, that work is used in the employee's capacity as an expert rather than as an assistant on the audit as contemplated in SAS 240 "Quality control for audit work". Accordingly, in such circumstances the auditors would apply relevant procedures to the employee's work and findings but would not ordinarily assess for each engagement the employee's skills and competence.

Determining the need to use the work of an expert

7. During the audit the auditors may need to obtain, in conjunction with the entity or independently, audit evidence in the form of reports, opinions, valuations and statements of an expert. Examples are set out below.
 - a. Valuations of certain types of assets, for example, land and buildings, plant and machinery, works of art, and precious stones.
 - b. Determination of quantities or physical condition of assets, for example, minerals stored in stockpiles, underground mineral and petroleum reserves, and the remaining useful life of plant and machinery.

- c. Determination of amounts using specialised techniques or methods, for example, an actuarial valuation.
 - d. The measurement of work completed and to be completed on contracts in progress.
 - e. Legal opinions concerning interpretations of agreements, statutes and regulations.
8. When determining the need to use the work of an expert, the auditors would consider:
- a. the materiality of the financial statement item being considered;
 - b. the risk of misstatement based on the nature and complexity of the matter being considered; and
 - c. the quantity and quality of other audit evidence available.
9. If the auditors determine that it is appropriate to seek to use the work of an expert, the approach is discussed and may be agreed with management or the directors. If management or the directors are unable or unwilling to engage an expert, the auditors may consider engaging an expert or whether sufficient appropriate audit evidence can be obtained from other sources. If unable to obtain sufficient appropriate audit evidence, they consider the implications for their report in accordance with SAS 600 "Auditors' reports on financial statements".

Competence and objectivity of the expert

10. *When planning to use the work of an expert, the auditors should assess the professional competence of the expert. (SAS 520.2)*
11. This may involve considering the expert's:
- a. professional certification or licensing by, or membership in, an appropriate professional body; and
 - b. experience and reputation in the field in which the auditors are seeking audit evidence.
12. *The auditors should assess the objectivity of the expert. (SAS 520.3)*
13. The risk that an expert's objectivity would be impaired increases when the expert is:
- a. employed by the entity; or
 - b. related in some other manner to the entity, for example, by being financially dependent upon or having an investment in the entity.
14. If the auditors are concerned regarding the competence or objectivity of the expert the auditors would discuss any reservations with management and consider whether sufficient appropriate audit evidence can be obtained concerning the work of an expert. The auditors may seek to undertake additional audit procedures or seek audit evidence from another expert (after taking into account the factors in paragraph 8). If unable to obtain sufficient appropriate audit evidence, they consider the implications for their report in accordance with SAS 600 "Auditors' reports on financial statements".

Scope of the expert's work

15. *The auditors should obtain sufficient appropriate audit evidence that the scope of the expert's work is adequate for the purposes of the audit. (SAS 520.4)*

16. Audit evidence may be obtained through a review of the terms of reference which are often set out in written instructions from the entity to the expert. Such instructions to the expert may cover matters such as:
- a. the objectives and scope of the expert's work;
 - b. a general outline as to the specific matters the auditors expect the expert's report to cover;
 - c. the intended use by the auditors of the expert's work, including the possible communication to third parties of the expert's identity and extent of involvement;
 - d. the extent of the expert's access to appropriate records and files;
 - e. clarification of the expert's relationship with the entity, if any;
 - f. confidentiality of the entity's information; and
 - g. information regarding the assumptions and methods intended to be used by the expert and their consistency with those used in prior periods.

In the event that these matters are not clearly set out in written instructions to the expert, the auditors may seek to communicate with the expert directly to obtain audit evidence in this regard.

Assessing the work of the expert

17. *The auditors should assess the appropriateness of the expert's work as audit evidence regarding the financial statement assertion being considered. (SAS 520.5)*
18. This may involve assessment of whether the substance of the expert's findings is properly reflected in the financial statements or supports the financial statement assertions, and consideration of:
- a. source data used;
 - b. assumptions and methods used and their consistency with prior periods; and
 - c. results of the expert's work in the light of the auditors' overall knowledge of the business and of the results of other audit procedures.
19. When considering whether the expert has used source data which is appropriate in the circumstances, the auditors would consider the following procedures:
- a. making enquiries regarding any procedures undertaken by the expert to establish whether the source data is sufficient, relevant and reliable; and
 - b. reviewing or testing the data used by the expert.
20. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the expert. The auditors do not have the same expertise and, therefore, cannot always challenge the expert's assumptions and methods. However, the auditors seek to obtain an understanding of the assumptions and methods used and to consider whether they are appropriate and reasonable, based on the auditors' knowledge of the business and the results of other audit procedures.
21. *If the results of the expert's work do not provide sufficient appropriate audit evidence or if the results are not consistent with other audit evidence, the auditors should resolve the matter. (SAS 520.6)*
22. This may involve discussions with the entity and the expert, applying additional procedures, including possibly engaging another expert.

23. If the auditors are not satisfied that the work of an expert provides sufficient appropriate audit evidence and there is no satisfactory alternative source of such evidence, they consider the implications for their report in accordance with SAS 600 "Auditors' reports on financial statements".

Reference to an expert in the auditors' report

24. *When expressing an unqualified opinion, the auditors should not normally refer to the work or findings of the expert. (SAS 520.7)*

25. Such a reference in an unqualified opinion might be misunderstood to be a qualification of the auditors' opinion or a division of responsibility, neither of which is intended nor appropriate.

26. If, as a result of the report or findings of an expert, the auditors decide to:

- a. add an explanatory paragraph describing an uncertainty;
- b. add an explanatory paragraph describing the auditors' substantial doubt about the entity's ability to continue as a going concern;
- c. add an explanatory paragraph to emphasise a matter regarding the financial statements; or
- d. issue a qualified auditors' report,

reference to and identification of the expert and the extent of the expert's involvement may be made in the auditors' report if the auditors believe such reference will facilitate an understanding of the reason for the explanatory paragraph or the issue of a qualified opinion.

27. In the circumstances, the auditors would obtain the permission of the expert before making such a reference. If permission is refused and the auditors believe a reference is necessary, the auditors may consider seeking legal advice.

Compliance with International Standards on Auditing

28. Compliance with the auditing standards contained in this SAS ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Auditing 620 "Using the Work of an Expert".

Effective date

29. This SAS is effective for audits of financial statements for periods beginning before 15 December 2004.