



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

EXPLANATORY GUIDE Au10

Evaluating the Appropriateness of a Management's Expert's Work

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This Explanatory Guide has been adopted by the New Zealand Auditing and Assurance Standards Board (NZAuASB) to provide guidance to auditors when using the work of a management's expert as audit evidence under the International Standards on Auditing (New Zealand) in relation to:

- a) an audit of financial statements; and
- b) audits of other historical financial information:

This publication provides guidance that may be considered and adapted as necessary in the circumstances, to non-historical information assurance engagements but is not a substitute for referring to the requirements and application material contained in ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

This Explanatory Guide is an explanatory document, has no legal status and does not prescribe or create new requirements.

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EXPLANATORY GUIDE Au10

EVALUATING THE APPROPRIATENESS OF A MANAGEMENT'S EXPERT'S WORK

Issued by the New Zealand Auditing and Assurance Standards Board

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Introduction

1. This Explanatory Guide has been developed to provide guidance on:
 - (a) The circumstances under which a management's expert may be used and the nature of that work;
 - (b) The auditor's considerations in determining whether to use the work of a management's expert as audit evidence in carrying out the responsibilities of the auditor with respect to an entity's financial statements or other historical financial information; and
 - (c) The auditor's considerations in determining the information to be used as audit evidence.

Scope of this Explanatory Guide

Management or Management's Expert

2. Where the necessary information to prepare the financial statements and/or historical financial information is produced by management, ISA (NZ) 330¹ requires the auditor to design and perform audit procedures whose nature, timing and extent are based on and are responsive to the risk of material misstatement at the assertion level as identified and assessed by the auditor in accordance with ISA (NZ) 315 (Revised)².
3. Where the necessary information to prepare the financial statements and/or historical financial information is produced by a management's expert, ISA (NZ) 500 *Audit Evidence*³ establishes requirements and provides application and explanatory material on using the work of a management's expert as audit evidence. This Explanatory Guide is to be read in conjunction with ISA (NZ) 500. Examples of management's experts are included in paragraphs 13 to 15 of this Explanatory Guide.
4. ISA (NZ) 500⁴ also establishes requirements and provides application and explanatory material on information obtained from an external information source. This Explanatory Guide does not provide guidance on information obtained from an external information source.
5. This Explanatory Guide applies to the use of a management's expert's work irrespective of whether they are internal or external to an entity, but does not deal with the use of experts that are not engaged or employed by management.
6. The work of a management's expert is often associated with accounting estimates. ISA (NZ) 540 *Auditing Accounting Estimates and Related Disclosures*⁵ establishes requirements and provides application and explanatory material on auditing accounting estimates. This Explanatory Guide is to be read in conjunction with ISA (NZ) 540.

1 ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, paragraph 6.

2 ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

3 ISA (NZ) 500, paragraph 8.

4 ISA (NZ) 500, paragraph 7.

5 ISA (NZ) 540, paragraph 30.

Considerations in Using the Work of an Auditor's Expert

7. It is the responsibility of the engagement partner⁶ to determine that the engagement team has the appropriate competence and capabilities, including sufficient time, to perform an audit engagement in accordance with the International Standards on Auditing (New Zealand) (ISAs (NZ)), relevant ethical requirements, and applicable legal and regulatory requirements. When management uses the work of a management's expert to assist the entity in preparing the financial statements, the auditor determines whether the involvement of an auditor's expert is required.
8. There is no requirement for the auditor to use an auditor's expert to evaluate the work performed by a management's expert. However, if management uses a management's expert, the auditor determines whether to use the work of an auditor's expert⁷. An auditor who is not an expert in a field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the audit without the use of an auditor's expert. Ways in which this understanding may be obtained include:
 - (a) experience in auditing entities that require such expertise; for example, an auditor who has not audited in the extractive industry may not have the same level of knowledge and understanding as an auditor who works extensively in this industry;
 - (b) education or professional development in the particular field which may include formal courses;
 - (c) discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own competence to deal with matters in that field; and
 - (d) discussion with auditors who have performed engagements in the same or similar industries with the same or similar use of experts for the preparation of financial statements.
9. While an auditor may have obtained knowledge of a field as described in paragraph 8 of this Explanatory Guide, the auditor's decision on whether to use an auditor's expert may be influenced by factors included in ISA (NZ) 620⁸ as well as:
 - (a) the nature and significance of the matter, including its complexity;
 - (b) the risks of material misstatement;
 - (c) the expected nature of procedures to respond to the identified risks, including:
 - (i) the auditor's knowledge and experience with the work of experts in relation to such matters; and
 - (ii) the availability and extent of alternative sources of audit evidence;
 - (d) the extent to which management has used a management's expert; and
 - (e) the management expert's competence, capabilities and objectivity.
10. This Explanatory Guide does not provide guidance on the auditor's use of the work of an auditor's expert. ISA (NZ) 620 *Using the Work of an Auditor's Expert* establishes

6 ISA (NZ) 220 *Quality Control for an Audit of Financial Statements*, paragraph 14.

7 ISA (NZ) 620 *Using the Work of an Auditor's Expert*, paragraph 7.

8 ISA (NZ) 620, paragraph A9.

requirements and provides application and other explanatory material on using the work of an auditor's expert as audit evidence.

Definitions

11. For the purposes of this Explanatory Guide the following items have the meanings attributed in the ISAs (NZ) and reproduced below:
 - (a) Expertise means skills, knowledge and experience in a particular field⁹.
 - (b) External information source means an external individual or organisation that provides information that has been used by the entity in preparing the financial statements, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management's expert, that individual or organisation is not considered an external information source with respect to that particular information¹⁰.
 - (c) Management's expert means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements or other historical financial information¹¹.

The Auditor's Responsibility for the Conclusion

12. The auditor has sole responsibility for the audit opinion expressed and that responsibility is not reduced by the auditor's use of the work of a management's expert.

Examples of Management's Experts

13. The preparation and presentation of financial statements and/or other historical financial information of an entity is the responsibility of management and those charged with governance. Determination of amounts included in the financial statements and/or other historical financial information may require expertise in a field other than accounting or auditing. Such expertise may be obtained by management using a management's expert.
14. An individual may possess expertise in accounting or auditing, as well as expertise in a field other than accounting or auditing (for example, an actuary may also be an accountant). In these circumstances, the determination of whether that individual is a management's expert depends on the nature of the work performed. For example, an individual with expertise in applying methods of accounting for deferred income tax can often be easily distinguished from an expert in taxation law. The former is not a management's expert for the purposes of this Explanatory Guide as this constitutes accounting expertise; the latter is an expert for the purposes of this Explanatory Guide as this constitutes legal expertise. Similar distinctions may also be able to be made in other areas, for example:
 - (a) Between expertise in methods of accounting for financial instruments, and expertise in complex modelling for the purpose of valuing financial instruments.

9 ISA (NZ) 620, paragraph 6(b).

10 ISA (NZ) 500, paragraph 5(d).

11 ISA (NZ) 500, paragraph 5(e).

The former is not considered to be a management's expert as this constitutes accounting expertise.

- (b) An entity's internal expertise in IT controls is not considered to be a management's expert as management is responsible for the design and implementation of controls that is integral to the functioning of the financial reporting system and preparation of the financial statements.
15. Management may engage or employ experts (which may include but are not limited to actuaries, valuers, engineers, environmental consultants, geologists, scientists, health practitioners, taxation specialists, legal advisors and other industry specialists) to obtain the necessary information to prepare the financial statements and/or historical financial information. Examples of such expertise include:
- (a) Valuation (for example, of high-technology materials or equipment, complex financial instruments, land and buildings, intangibles, investments and environmental liabilities).
 - (b) Determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals, mineral reserves, or raw materials stored in stockpiles).
 - (c) Determination of amounts derived by using specialised techniques or methods (for example, actuarial calculations of liabilities associated with insurance contracts or employee benefit plans).
 - (d) Interpretation of technical requirements of contract, laws and regulations. This may be done in some cases by those possessing legal expertise. ISA (NZ) 502 *Audit Evidence – Specific Considerations for Litigation and Claims* establishes requirements and provides application and other explanatory material regarding considerations by an auditor in obtaining sufficient appropriate audit evidence relating to litigation and claims. The requirement in ISA (NZ) 502 is for the auditor to consider the applicable requirements and guidance on using the work of an expert contained in ISA (NZ) 500 before using the work of in-house or external legal counsel as audit evidence.

Considerations in Determining Whether to Use the Work of a Management's Expert

16. The auditor's decision on whether to use the work of a management's expert as audit evidence may be influenced by:
- (a) The nature and significance of the matter, including its complexity.
 - (b) The risks of material misstatement in the matter.
 - (c) The nature, timing and extent of procedures to respond to the identified risks, including the auditor's knowledge of, and experience with, the work of the management's experts in relation to such matters and the availability of alternative sources of audit evidence.
 - (d) The sources and level of detail of information available from the management's expert. Examples of sources of information include, but are not limited to:
 - (i) the management expert's report;

- (ii) the management expert's working papers; and
- (iii) the management expert's methodologies or systems.

Audit evidence in documentary form is generally more reliable than evidence obtained orally¹². Where the matter is significant or complex or the risk of material misstatement is high, discussions with the management's expert alone may not provide an appropriate source of information for obtaining audit evidence.

17. The auditor may need to understand the nature, timing and extent of the work of a management's expert, and the conclusions reached by that expert early on in the planning stages of the audit engagement. The auditor may refer to the terms of the engagement between the entity and the management expert to obtain this understanding.
18. When determining the nature, timing and extent of audit procedures in relation to the work of the management's expert, the auditor makes reference to the requirements, application and other explanatory material contained in ISA (NZ) 500¹³.

Considerations in Determining the Information to Be Used as Audit Evidence

19. ISA (NZ) 500¹⁴ requires that if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor, to the extent necessary and having regard to the significance of that expert's work for the auditor's purposes:
 - (a) evaluates the competence, capabilities and objectivity of that expert (Ref: Para. 21-32);
 - (b) obtains an understanding of the work of that expert (Ref: Para. 33-36); and
 - (c) evaluates the appropriateness of that expert's work as audit evidence for the relevant assertion (Ref: Para. 37-56).
20. In relation to the work of a management's expert, the auditor obtains more persuasive audit evidence the higher the auditor's assessment of risk¹⁵. The auditor may also consider obtaining more persuasive evidence as:
 - (a) the significance of that expert's work on the financial statements increases;
 - (b) the ability of the company to affect the management's expert's judgements increases; and
 - (c) the level of competency and capability possessed by the management expert decreases.

Competence, Capabilities and Objectivity of a Management's Expert

21. The auditor makes reference to the requirements and the application and other explanatory material contained in ISA (NZ) 500 and evaluates whether the

12 ISA (NZ) 500, A35.

13 ISA (NZ) 500, paragraph 8.

14 ISA (NZ) 500, paragraph 8.

15 ISA (NZ) 330 *The Auditor's Responses to Assessed Risks*, paragraph 7(b).

management's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. This is ordinarily performed as part of the audit planning and risk assessment process, the timing of which may be restricted by management's process for planning and selecting management's experts.

22. Competence, capability and objectivity of a management's expert impacts the degree of reliability of that expert's work as audit evidence, that is, the extent to which the management's expert's work could provide persuasive audit evidence.
23. The nature and extent of procedures to evaluate the management's expert's competence, capability and objectivity depends on the significance of that expert's work to the auditor's conclusion regarding the relevant assertion and the risk of material misstatement of the relevant assertion. As the significance of the management's expert's work and risk of material misstatement increases, the persuasiveness of the evidence the auditor obtains for this evaluation also increases¹⁶.

Competence

24. Competence relates to the nature and level of expertise of the management's expert. The auditor uses professional judgement when determining the competency of a management's expert. When evaluating competence, the auditor may consider the guidance included in ISA (NZ) 500¹⁷ as well as:
 - (a) The management's expert's experience in the type of work performed, including applicable areas of speciality within the expert's field.
 - (b) The reputation and standing of the management's expert, including:
 - (i) previous experience of the auditor with the work of that expert; and
 - (ii) enquiring of other practitioners who have used that expert or others working in the same industry.
 - (c) The professional certification, licence or professional accreditation of the management's expert. Experts in a specific field commonly have professional obligations under their professional or industry bodies. These obligations vary significantly and are determined by the professional or industry body¹⁸. The auditor's confidence when evaluating the competency of the management's expert may increase with that expert's membership of professional or industry bodies that:
 - (i) require professional qualification or accreditation;
 - (ii) subject their members to regulatory requirements or guidance;
 - (iii) subject their members to a specific set of standards or guidance on the expert's services;
 - (iv) require continuous professional development; and

16 ISA (NZ) 330, paragraph 7(b).

17 ISA (NZ) 500, paragraph A48-A51.

18 For example, actuaries are governed by the New Zealand Society of Actuaries Incorporated. An actuary's specific responsibilities in relation to data are set out in the the New Zealand Society of Actuaries Code of Professional Conduct, the New Zealand Society of Actuaries Professional Standards and, where relevant, other regulatory and legislative requirements such as those under the Insurance (Prudential Supervision) Act 2010.

- (v) require professional obligations to be followed by their members.
25. The auditor's evaluation of the management expert's competence may be influenced by the management's expert's work environment, for example that expert's internal quality control policies and procedures.

Capability

26. Capability relates to the ability of the management's expert to exercise their competency in the circumstances. When evaluating capability, the auditor may consider the guidance included in ISA (NZ) 500¹⁹ as well as:
- (a) geographic location;
 - (b) availability of time;
 - (c) availability of resources; and
 - (d) instructions on scope provided by management.

Objectivity

27. Objectivity relates to the possible effects that bias, conflict of interest, or the influence of others may have on the professional or business judgement of the management's expert. When evaluating objectivity, the auditor may consider the guidance included in ISA (NZ) 500²⁰ as well as:
- (a) circumstances that threaten the objectivity of the management's expert; and
 - (b) whether appropriate safeguards are in place to eliminate those threats or reduce them to an acceptable level.
28. ISA (NZ) 500 indicates that evidence from external sources is generally more reliable than that generated internally. The auditor may evaluate the relationship to the company of the management's expert, specifically whether circumstances exist that give the company the ability to significantly affect the management's expert's judgements about the work performed, conclusions, or findings. The existence of a relationship between the management's expert and the entity being audited may impair that expert's ability to be objective. The risk that the objectivity of a management's expert will be impaired increases when the management's expert is employed by the entity or is related in some way to the entity. Where a management's expert is employed by the entity, the auditor needs to consider whether there are any mitigating factors such as professional and/or statutory obligations governing the work of that expert that would impact on the objectivity of the management's expert.
29. Circumstances which may threaten the objectivity of the management's expert may include advocacy threats, familiarity threats, self-review threats and self-interest threats²¹. Examples include economic dependency of the management's expert on the entity, and contingency-based fee arrangements.
30. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the management's expert and the

19 ISA (NZ) 500, paragraph A48-A51.

20 ISA (NZ) 500, paragraph A48-A54.

21 ISA (NZ) 500, paragraph A52.

significance of that expert's work in the context of the audit. There may be safeguards specific to the audit engagement; however, there may be circumstances where safeguards cannot reduce threats to an acceptable level²².

31. When the management's expert is an employee of the entity, mitigating factors which enhance the ability of the management's expert to be objective, and therefore are safeguards for the lack of independence, may include:
- (a) adherence to the professional standards issued by the expert's regulating body; and
 - (b) formal appointment of the management's expert by those charged with governance and direct access to those charged with governance by that expert.

The basis on which the management's expert is remunerated or the existence of incentives offered as part of that remuneration may be considered by the auditor when evaluating the management's expert's objectivity. Consideration of such matters may also be relevant in evaluating the objectivity of a management's expert that is external to the entity.

Overall Evaluation of Competence, capability and objectivity of a management's expert

32. When the management's expert has been evaluated by the auditor as not being competent, capable and/or objective, the auditor may consider not using that expert's work as audit evidence. In such circumstances the auditor may consider:
- (a) suggesting to management to engage a different management's expert;
 - (b) seeking audit evidence from another expert including an auditor's expert; or
 - (c) changing the nature and extent of other audit procedures.

When the management's expert has been evaluated by the auditor as being competent, capable and objective, this is not a substitute for evaluating the appropriateness of that expert's work as audit evidence as required by ISA (NZ) 500²³.

Obtaining an Understanding of the Work of a Management's Expert

33. The auditor makes reference to the requirements, application and other explanatory material in ISA (NZ) 500 when obtaining an understanding of the management's expert's work, to evaluate whether it is appropriate for the purposes of the audit.
34. When obtaining an understanding of the management's expert's work, the auditor, having regard to whether the management's expert is internal or external to the entity, may consider:
- (a) the terms of the engagement between the entity and the management expert, including understanding the nature, timing and extent of work to be performed by the management's expert and the form of any report to be provided by that expert;
 - (b) whether the auditor has any prior knowledge of the management's expert's field of expertise, or with that expert;
 - (c) the economic and competitive conditions impacting the entity and its operating

22 ISA (NZ) 620, paragraph A19.

23 ISA (NZ) 500, paragraph 8(c).

- results;
- (d) whether there is evidence of undue management pressure on the management's expert;
 - (e) the existence of controls within the entity over the work of the management's expert (for example, whether there are procedures in place to challenge or review that expert's work, such as review by those charged with governance) or controls over the source data used in that expert's assessment;
 - (f) whether management has authorised its expert to discuss their findings or conclusions with the auditor²⁴;
 - (g) whether the management's expert has consented to the auditor's intended use of their findings; and
 - (h) whether the management's expert has agreed for the auditor to access their work papers (review of the expert's work papers is not normally required other than as considered necessary by the auditor using their professional judgement).
35. Where management has not consented for their expert to discuss their findings or conclusions with the auditor, or the management's expert has not consented to the auditor's intended use of their findings, the auditor may consider the guidance provided in paragraphs 55 to 56 of this Explanatory Guide.

Engagement with the Management's Expert

36. As early as practicable during the engagement, the auditor communicates with the management's expert, either directly or indirectly through management, and may consider the management's expert's approach and methodology. The auditor evaluates whether the approach and methodology are an appropriate basis for determination of the matter included in the financial statements or other historical financial information. For example, where management uses a valuation expert for a purchase price adjustment calculation, the auditor communicates with the management's expert early on in the valuation process so as to understand and agree on the basis for identification of assets and the basis of the valuation methodology.

Evaluating the Appropriateness of the work of a Management's Expert

37. ISA (NZ) 500²⁵ contains application and other explanatory material that, when evaluating the appropriateness of the management expert's work as audit evidence for the relevant assertion, the auditor considers:
- (a) the relevance and reasonableness of the management's expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
 - (b) if the management's expert's work involves the use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods;

24 Agreement for the expert to discuss findings with the auditor, and consent for the auditor to use the expert's findings, are generally discussed and agreed with management or those charged with governance and the expert in the planning phase of the engagement.

25 ISA (NZ) 500, paragraph A59.

- (c) if the management's expert's work involves significant use of source data, the relevance, completeness and accuracy of that source data; and
 - (d) if the management's expert's work involves the use of information from an external information source, the relevance and reliability of that information.
38. ISA (NZ) 540²⁶ contains requirements and application material for when evaluating the appropriateness of the work of a management's expert as audit evidence in relation to the audit of accounting estimates.
39. In addition, when evaluating the appropriateness of the work of a management's expert, the auditor may consider the accuracy of prior period estimates made by the management's expert. Where the auditor determines that past estimates have not been sufficiently accurate, the auditor may consider obtaining an understanding of the reasons for the inaccuracy and performing additional audit procedures as appropriate to the circumstances.

Determining the necessary audit effort for evaluating the appropriateness of management's expert's work

40. ISA (NZ) 500 and ISA (NZ) 540 do not require that the auditor ordinarily reperforms all of the work undertaken by a management's expert. Instead, if information is to be used as audit evidence and that evidence has been prepared using the work of a management's expert, the auditor's responsibility is to evaluate whether the management's expert's work provides sufficient appropriate audit evidence to support a conclusion regarding whether the corresponding accounts or disclosures in the financial statements are in conformity with the relevant financial reporting framework.
41. Consistent with paragraph 20 of this Explanatory Guide, factors that may impact the persuasiveness of evidence needed when evaluating the appropriateness of the work of a management's expert include the risk of material misstatement and the significance of the management's expert's work to the auditor's conclusion. This is because:
- (a) Consistent with ISA (NZ) 330²⁷, the higher the risk of material misstatement for an assertion, the more persuasive the evidence needed to support a conclusion about that assertion.
 - (b) The significance of a management's expert's work refers to the degree to which the auditor gathers evidence in evaluating the management's expert's work to support the auditor's conclusions about the assertion. Generally, the greater the significance of the management's expert's work to the auditor's conclusion, the more persuasive the evidence from the management's expert's work needs to be. The significance of the management's expert's work stems from:
 - (i) The extent to which the management's expert's work affects the account balances, classes of transactions and disclosures in the financial statements. In certain situations, that work may be a primary source of audit evidence, while in other situations, the management's expert's work may only be used as a cross-check.

²⁶ ISA (NZ) 540, paragraph 30.

²⁷ ISA (NZ) 330, paragraph 7(b).

- (ii) The auditor's approach to testing the relevant assertion and the availability of alternative sources of audit evidence. For example, when a company's accounting estimate is determined principally based on the work of a management's expert, and the auditor plans to test how management made the accounting estimate, the auditor would plan to evaluate the work of the management's expert for evidence regarding the estimate. If the auditor tests an assertion by developing an independent expectation, the auditor would give less consideration to the work of the management's expert.

Methods, Assumptions and Source Data

- 42. A management's expert's work involves the use of methods, assumptions and source data, the auditor ordinarily does not reperform all of the work undertaken by that expert. The auditor's responsibility is to evaluate whether the management's expert's work is appropriate to provide sufficient appropriate audit evidence²⁸ to support a conclusion regarding whether in all material respects the corresponding account balances, classes of transactions or disclosures in the financial statements are in conformity with the applicable financial reporting framework. Paragraph 55 of this Explanatory Guide provides additional guidance for the auditor where the auditor determines that the work of the management's expert is not appropriate for the auditor's purposes.

Methods

- 43. When a management's expert's work involves the use of methods, factors relevant to the auditor's evaluation of the appropriateness of methods may include whether the methods are:
 - (a) generally accepted within the management's expert's field;
 - (b) justified as the appropriate valuation methodology;
 - (c) consistent with the requirements of the applicable financial reporting framework; and
 - (d) dependent on the use of specialised models.
- 44. Ordinarily the auditor is not expected to obtain access to proprietary models used by a management's expert. Rather, the auditor's responsibility is to obtain information to evaluate whether the model used is appropriate, robust and capable of producing outcomes that allow conformity with the applicable financial reporting framework. Depending on the model and the factors listed in paragraph 43, this may involve for example one or more of the following:
 - (a) Obtaining an understanding of the model.
 - (b) Reviewing descriptions of the model in the management's expert's report.
 - (c) Testing controls over the company's evaluation of the management's expert's work.

28 ISA (NZ) 500, paragraph 8(c).

- (d) Evaluating inputs to and outputs from the model or in place of other procedures, the auditor may consider using an alternative model for comparison.
45. If the work of a management's expert involves the use of methods relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or range or related disclosures for inclusion in financial statements, the auditor follows the requirements contained within ISA (NZ) 540²⁹.

Assumptions

46. When a management's expert's work involves the use of significant assumptions³⁰, factors relevant to the auditor's evaluation of the reasonableness of those assumptions may include consideration of:
- (a) The degree of estimation uncertainty associated with the management's expert's underlying assumptions and the degree of stress testing undertaken.
 - (b) Significant changes during the course of the audit that may affect the appropriateness of the assumptions used.
 - (c) Consistency of those assumptions with relevant information. The following examples may be considered relevant:
 - o Assumptions generally accepted within the management's expert's field and are they appropriate for financial reporting purposes.
 - o Industry, regulatory and other external factors, including economic conditions.
 - o Existing market information.
 - o Historical or recent experience, along with changes in conditions and events affecting the company.
 - o Significant assumptions used in other estimates tested in the entity's financial statements.
47. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when they are used by management in making an accounting estimate³¹. In these circumstances, the auditor applies the relevant requirements of ISA (NZ) 540 to those assumptions.

Source Data Used by the Management's Expert

48. The auditor may consider whether the source data is sufficiently relevant and reliable for their purposes, including by performing procedures relating to establishing the accuracy and completeness of the data and evaluating whether the data is sufficiently precise and detailed. The extent of the auditor's procedures is dependent on the nature and risk of the source data and the materiality of the underlying balance, transaction and/or disclosure to which it relates. When a management's expert's work involves the use of source data that is significant to that expert's work, the auditor may evaluate that expert's work on source data. Procedures for the auditor may include considering how the management's expert determined that the source data was relevant and reliable,

29 ISA (NZ) 540, paragraphs 30 and A131.

30 ISA (NZ) 540, paragraph A42.

31 ISA (NZ) 540, paragraph A130.

including as necessary in the circumstances how the management's expert determined that the source data was complete and accurate.

49. In many cases, the auditor may test the source data directly, particularly where the data is internally produced by the entity. However, in other cases, for example when the nature of the source data used by the management's expert is highly technical, that expert may test the source data. If the management's expert has tested the source data, the auditor considers the most appropriate way of evaluating whether the source data is sufficiently reliable for their purposes. Means of doing so may include making enquiry of that expert as to the scope and nature of the testing they performed, undertaking supervision or review of that expert's tests, and involving an auditor's expert.
50. If the work of a management's expert involves sources of data relating to an accounting estimate, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in a financial statements, the auditor may find the requirements and application material of ISA (NZ) 540³² helpful.

The Findings and Conclusions of the Management's Expert

51. The auditor may consider the final findings and conclusions in the agreed form of report of the management's expert. The auditor, using their professional judgement, considers what additional procedures are required, particularly when the risk of material misstatement has been assessed as significant. The auditor may consider performing more extensive procedures or engaging an auditor's expert to review some or all of the work of the management's expert. Specific procedures to evaluate the reasonableness of the management's expert's work for the auditor's purposes may include:
 - (a) Making enquiries of the management's expert.
 - (b) Comparing the management's expert's final report to the draft report (if a draft report is provided) and understanding and enquiring into material differences and considering additional audit procedures as appropriate.
 - (c) Corroborative procedures, such as:
 - o observing the management's expert's work;
 - o examining published data, such as statistical reports from reputable, authoritative sources;
 - o confirming relevant matters with relevant third parties;
 - o performing detailed analytical procedures; and/or
 - o re-performing calculations including sensitivity analysis on key inputs.
 - (d) Consulting with an auditor's expert with relevant expertise when, for example, the findings or conclusions of the management's expert are not consistent with other audit evidence; the findings indicate an error, deviation, deficiency in internal control, or other significant matter; or the scope of the engagement or adequacy of evidence is insufficient.
 - (e) Discussing the management's expert's report with management and, if appropriate, those charged with governance, including to understand their evaluation of the expert's findings.

32 ISA (NZ) 540, paragraph A131.

52. Relevant factors to consider when evaluating the relevance and reasonableness of the findings or conclusions of the management's expert from that expert's report may include whether they are:
- (a) consistent with the auditor's understanding of the entity and its environment;
 - (b) clearly expressed, including with reference to the objectives agreed with management, the scope of the work performed, and standards applied;
 - (c) consistent with the results of other audit procedures;
 - (d) cross-checked against one or more other methodologies;
 - (e) based on an appropriate period or point in time and, where relevant, take into account events occurring after that date;
 - (f) subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor; and
 - (g) based on appropriate consideration of errors, deviations, deficiencies in internal controls or other significant matters identified by the management's expert.

Evaluation of the Work Undertaken by the Management's Expert

53. The auditor evaluates the appropriateness of the management's expert's work as audit evidence for the relevant assertion³³.
54. Considerations when evaluating the appropriateness of the management's expert's work may include considering the relevance and reliability of that work including:
- (a) the results of the auditor's procedures over the competence, capability and objectivity of the management's expert;
 - (b) the results of the auditor's procedures over the management's expert's methods, assumptions and source data;
 - (c) the nature of any restrictions, disclaimers or limitations in the management's expert's report; and
 - (d) the consistency of the management's expert's work with other evidence obtained by the auditor, and the auditor's understanding of the entity and its environment.
55. When the auditor concludes that the work of the management's expert is appropriate for the auditor's purposes, the auditor may use that expert's findings or conclusions as appropriate audit evidence. The auditor then determines whether the management's expert's findings or conclusions have been accurately reflected in the financial statements or other historical financial information including relevant disclosures.
56. If the auditor determines that the work of the management's expert is not appropriate for the auditor's purposes, or does not address material errors, deviations, deficiencies in internal controls or other material matters. The auditor may communicate this with those charged with governance. The auditor may agree with management on the nature and extent of further work to be performed by the management's expert. Alternatively, the auditor performs additional audit procedures appropriate to the circumstances³⁴. If the matter cannot be resolved, this is reported to those charged with governance and it

33 ISA (NZ) 500, paragraph 8.

34 ISA (NZ) 500, paragraph 11.

may be necessary for the auditor to express a modified opinion in the auditor's report if the auditor cannot obtain sufficient appropriate audit evidence.

Documentation

57. Although there are no specific documentation requirements in ISA (NZ) 500, the auditor is required to comply with the documentation requirements of ISA (NZ) 230³⁵. These require the auditor, when evaluating the extent of documentation, to consider what audit documentation is necessary to enable an experienced auditor, having no previous connection with the audit, to understand the auditor's:
- (a) determination of whether to use the work of the management's expert;
 - (b) evaluation of the competence, capabilities and objectivity of the management's expert;
 - (c) understanding of the management's expert's work; and
 - (d) evaluation of the appropriateness of the management's expert's work as audit evidence for the relevant assertion.
58. The auditor may include in their documentation relevant extracts from the management's expert's findings, including the conclusions reached.
59. The auditor follows the documentation requirements of ISA (NZ) 540³⁶ when the management's expert's work is used in the preparation of an accounting estimate.

Reference to the Work of a Management's Expert in the Auditor's Report

60. The auditor does not refer to the work of the management's expert in an auditor's report containing an unmodified opinion, unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor indicates in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.
61. If the auditor makes reference to the work of the management's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor provides a description of the matter giving rise to the modification³⁷ and indicates in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

Communication with Those Charged with Governance and Others

62. Due to uncertainties that may be associated with the work undertaken by a management's expert, the potential effects of any significant risks on the financial statements and/or other historical financial information are likely to be of governance interest.
63. ISA (NZ) 260 (Revised) *Communication with Those Charged with Governance* specifies the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. In relation to using the work of a

35 ISA (NZ) 230 *Audit Documentation*.

36 ISA (NZ) 540, paragraph 39.

37 ISA (NZ) 705, paragraph 20(b).

management's expert, the auditor, using professional judgement, may communicate:

- (a) whether management has engaged a management's expert;
- (b) concerns regarding competency or objectivity of the management's expert;
- (c) materiality and risk of the subject matter subject to determination by the management's expert;
- (d) the proposed intended use of the management's expert's work by the auditor; and
- (e) key findings or conclusions of the management's expert's report, including commentary on:
 - o significant assumptions, methods and data used;
 - o degree of subjectivity of assumptions;
 - o whether that expert's work is adequate for audit purposes and obtains appropriate audit evidence; and
 - o significant differences in judgement between the auditor and that expert.

The appropriate timing for communications will vary with the circumstances of the engagement; however, it may be appropriate to communicate significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if the difficulty is likely to lead to a modified opinion.