

Implementation Tool for Auditors

CANADIAN AUDITING STANDARDS (CAS)

APRIL 2017

Using the Work of a Management's Expert

STANDARD DISCUSSED *CAS 500, Audit Evidence*

This *Implementation Tool for Auditors* (Tool) will help you implement Canadian Auditing Standards (CASs) requirements when information to be used as audit evidence has been prepared using the work of a management's expert. This Tool provides a list of steps, with illustrative examples, that will help you comply with the requirement in paragraph 8 of CAS 500, *Audit Evidence*.

Question: Is your client using a management's expert?

CAS 500, *Audit Evidence*, defines a **management's expert** as an "individual or organization 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." The preparation of an entity's financial statements may require such expertise; the entity's failure to engage a management's expert when such expertise is necessary may increase the risk of material misstatement.

Examples of where the work of a management's expert may be used include, but are not limited to:

Field of expertise	Used for:
Actuarial	<ul style="list-style-type: none"> determining the: <ul style="list-style-type: none"> present value of defined benefit obligations actuarial liabilities associated with insurance contracts for a life insurance enterprise or a property and casualty insurance enterprise self-insurance liabilities or warranty provisions
Valuations	<ul style="list-style-type: none"> determining the: <ul style="list-style-type: none"> fair value of identifiable assets acquired, the liabilities assumed and any non-controlling interest in a business combination fair value of investment property value of intangible assets net realizable value of certain inventory (e.g., diamonds) value of financial instruments (e.g., debt and derivatives) providing valuation information used for impairment assessments
Mining, engineering and geology	<ul style="list-style-type: none"> determining the: <ul style="list-style-type: none"> fair value of mining properties and evaluation and exploration (E&E) assets in a business combination value of environmental liabilities and site cleanup costs (i.e., asset retirement obligations (ARO)) inventory volume estimates (e.g., surveys of ore stockpiles, heap leach pads, etc.) reserve estimates, which may be used to perform: <ul style="list-style-type: none"> impairment testing for mining assets depletion calculations
Laws and regulations	<ul style="list-style-type: none"> interpretation of: <ul style="list-style-type: none"> contractual obligations, agreements and contracts, laws and regulations complex tax issues or tax opinions

Example 1

An example of determining whether a management's expert is used in preparing the entity's financial statements (see paragraph A36 of CAS 500):

An individual or organization possesses expertise in the application of models to estimate the fair value of securities for which there is no observable market.

If that individual or organization applies that expertise in making an estimate the entity uses in preparing its financial statements, the individual or organization is a management's expert.

If, on the other hand, that individual or organization merely provides price data regarding private transactions not otherwise available to the entity, which the entity uses in its own estimation methods, such information, if used as audit evidence, is not using the work of a management's expert. However, the auditor is still required to consider the relevance and reliability of such information to be used as audit evidence.

Question: Why is it important to know whether your client is using the work of a management's expert?

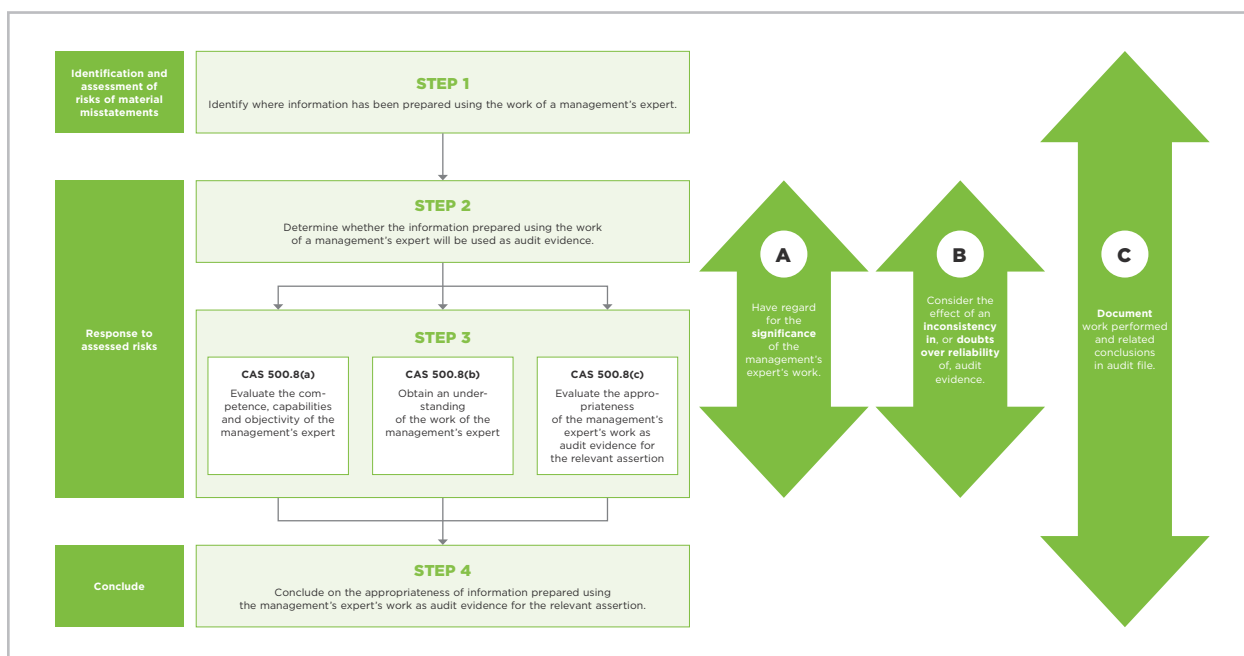
It is important that auditors understand when the entity has used the work of a management's expert in preparing the entity's financial statements because such work may:

- impact the auditor's risk assessment (e.g., the entity's failure to employ or engage experts, when expertise is necessary, increases the risk of material misstatement)
- be used as audit evidence and, if used as audit evidence, the auditor has responsibilities related to this information in accordance with CAS 500. Paragraphs 7 and 9 of CAS 500 require the auditor to consider the relevance and reliability of the information to be used as audit evidence.

Steps to evaluating the appropriateness of audit evidence prepared by a management's expert

Diagram 1 illustrates an approach to evaluating the appropriateness of information that has been prepared using the work of a management's expert as audit evidence. You will need to adapt your approach to the specific facts and circumstances of your audit engagement.

DIAGRAM 1



NOTE: A, B and C are discussed at the end of this Tool.

Step 1: Identify which information has been prepared using the work of a management's expert

As a result of the risk assessment procedures and understanding of the entity obtained as required by CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, the auditor identifies which information has been prepared using the work of a management's expert. At the beginning of this Tool, the response to the question "**Is your client using a management's expert?**" assists the auditor in determining where their client may be using the work of a management's expert.

Step 2: Determine whether the information prepared using the work of a management's expert will be used as audit evidence

The auditor may wish to use the information prepared using the work of a management's expert identified in Step 1 as audit evidence. The auditor's decision on whether to use the work of a management's expert may be affected by such matters as the availability of alternative sources of audit evidence or the nature, scope and objectives of the management's expert's work (see **[A] Have regard for the significance of the management's expert's work.** for additional factors to consider).

Example 2

Consider a scenario in which management engaged a management's expert to provide the fair value valuation of a property acquired in a business combination:

The auditor determines whether to use the work of the management's expert as audit evidence or whether to obtain other audit evidence to support the fair value of the property. If the auditor, in accordance with paragraph 13(d) of CAS 540, undertakes to develop their own point estimate or the range of fair value of the property to evaluate management's point estimate (which used the work of the management's expert), they would not need to use the work of the management's expert. Alternatively, if the auditor, in accordance with paragraph 13(b) of CAS 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, undertakes to test how management made the accounting estimate (which included the using the work of the management's expert) because, for example, there was limited availability of other audit evidence or it would have been difficult to obtain other audit evidence, they would likely need to use the work of the management's expert (or parts thereof) regarding fair value valuation.

The rest of the Tool assumes that the auditor has planned to use the information prepared using the work of a management's expert as audit evidence for the relevant assertion(s).

Step 3: When planning to use information prepared using the work of a management's expert as audit evidence, the auditor shall:

- a) **evaluate the competence, capabilities and objectivity of the management's expert;**
- b) **obtain an understanding of the work of the management's expert; and**
- c) **evaluate the appropriateness of the management's expert's work as audit evidence for the relevant assertion.**

Before progressing to Step 3, the engagement partner is required¹ to be satisfied that the engagement team has the appropriate competence and capabilities to perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements (see paragraph 14 of CAS 220, *Quality Control for an Audit of Financial Statements*). When management has used the work of a management's expert to assist the entity in preparing the financial statements, the auditor may determine that use of the work of an auditor's expert is required² to obtain sufficient appropriate audit evidence. The auditor's decision on whether to use an auditor's expert may be influenced by such factors as (see paragraph A9 of CAS 620):

- the nature, scope and objectives of the management's expert's work
- whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services

¹ Paragraph 14 of CAS 220, *Quality Control for an Audit of Financial Statements*.

² Paragraph 7 of CAS 620, *Using the Work of an Auditor's Expert*.

- the extent to which management can exercise control or influence over the work of the management's expert
- the management's expert's competence and capabilities
- whether the management's expert is subject to technical performance standards or other professional or industry requirements
- any controls within the entity over the management's expert's work.

CAS 500.8(a) Evaluate the competence, capabilities and objectivity of the management's expert

How might an auditor assess the competence of a management's expert?

Competence is described as the nature and level of expertise of the management's expert. When assessing competence, the auditor may consider:

- personal experience with previous work of the management's expert
- discussions with the management's expert or with others familiar with that management's expert's work. Talking to other practitioners who have used the management's expert or to others working in the same industry can help an auditor understand the management's expert's reputation and knowledge.
- management's expert's competence with respect to relevant accounting requirements (e.g., knowledge of assumptions and methods, including models, where applicable consistent with the applicable financial reporting framework). Personal experience with previous work of the management's expert, discussions with the management's expert or with others familiar with that management's expert's work may help the auditor in understanding the management's expert's knowledge of relevant accounting requirements.
- management's expert's qualifications, membership of a professional body or industry association, license to practice, accreditation standards of a licensing body, years of relevant work experience, technical performance standards or other forms of external recognition. This may include inquiry of the management's expert's professional body regarding whether they are a member in good standing or examining their license.
- relevance of the management's expert's competence in the matter for which the management's expert's work will be used, including any areas of specialization within the management's expert's field. Some professions, such as engineering, encompass a wide range of particular subspecialties.
- published papers or books written by the management's expert
- using an auditor's expert to assist in assessing the competence of the management's expert where the field of experience is outside of the knowledge of the auditor

Example 3

Consider a scenario in which management engaged a management's expert to provide the fair value valuation of a property acquired in a business combination.

The auditor may conclude that the management's expert is competent based on a combination of considerations such as that the management's expert:

- has provided fair value valuations of similar properties in terms of geography, type of real estate (e.g., commercial, residential), etc., for a number of years
- has a positive reputation (verified by awards / articles highlighting their achievements)
- is appropriately licensed, and considered to be in good standing by the applicable professional body
- has a lack of known negative press, known pending lawsuits, etc.
- has authored publications in this field of expertise.

How might an auditor assess the capabilities of a management's expert?

Capability is described as the ability of the management's expert to exercise that competence in the circumstances. When assessing capability, the auditor may consider:

- geographic location
- availability of time
- availability of resources
- using an auditor's expert to assist in assessing the capabilities of the management's expert where the field of experience is outside the knowledge of the auditor.

Example 4

Consider a scenario in which management engaged a management's expert to provide the fair value valuation of a property acquired in a business combination.

The auditor may conclude that the management's expert is capable based on a combination of considerations such as that the external management's expert:

- was able to perform a site visit of the property in question and demonstrate an ability to be familiar with the particular property in question
- was able to plan, perform and conclude all work in the agreed timelines as per their engagement letter with management.

How might an auditor assess the objectivity of management's expert?

Objectivity is described as the absence of any effects that bias, conflict of interest, or the influence others may have on the professional or business judgment of the management's expert. When assessing objectivity, the auditor considers:

- circumstances that **threaten** the objectivity of the management's expert
- whether appropriate **safeguards** are in place to eliminate those threats or reduce them to an acceptable level.

A broad range of circumstances may threaten objectivity; for example:

- self-interest
- advocacy
- familiarity
- self-review
- intimidation

In the case of a management's expert *employed* by the entity, the auditor may consider discussing with management and the management's expert any pressures or incentives (e.g., pressure to meet budgets or incentive to increase income in order to obtain a bonus) to appropriately evaluate the management's expert's objectivity. Control activities in place at the entity may act as a safeguard to reduce such threats. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

In the case of a management's expert *engaged* by the entity, the auditor may consider discussing with management and the management's expert any financial interests, business and personal relationships or provision of other services by the management's expert that might compromise the management's expert's objectivity (see paragraph A44 of CAS 500). Safeguards to reduce such threats may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality control policies and procedures).

Example 5

Consider a scenario in which management engaged a management's expert to provide the fair value valuation of a property acquired in a business combination.

The auditor may conclude that the management's expert is objective based on an analysis of threats and safeguards, such as:

- An objectivity threat exists due to the management's expert preparing the fair value valuation for both the entity under audit (i.e., the buyer) as well as the seller of the property.
- A safeguard to respond to this objectivity threat may be that both the buyer and the seller agree to the key assumptions and other data supporting the estimate.

CAS 500.8 (b) Obtain an understanding of the work of the management's expert

Obtaining an understanding of the work of the management's expert may assist the auditor in determining the appropriateness of the management's expert's work as audit evidence. The auditor may consider the following questions:

- What are the nature, scope and objectives of the management's expert's work (e.g., does the management's expert's work provide evidence for the same audit objective the auditor is testing)?
- What are the respective roles and responsibilities of management and the management's expert? Terms of the engagement may be found in different forms depending whether the management's expert is engaged by the entity or employed by the entity:

Management's Expert <i>Engaged</i> by the Entity	Management's Expert <i>Employed</i> by the Entity
There will ordinarily be some form of written agreement (it could be in the form of an engagement letter) between the entity and the management's expert outlining the terms of the work to be performed. Reading that engagement letter or written agreement and possibly engaging in discussions with management or management's expert may assist the auditor in obtaining the necessary understanding.	<p>It is unlikely there will be an engagement letter or written agreement between the entity and management's expert outlining the terms of the work to be performed.</p> <p>However, there may be a scoping document or project plan that outlines work to be performed. Reading that document or plan and engaging in discussions with the management's expert and other members of management may be the most appropriate way for the auditor to obtain the necessary understanding.</p>

- What methods³ are used by the management's expert?
 - Is the method used the generally accepted method in the management's expert's field and is it appropriate for financial reporting purposes?
 - Is the method relevant based on the facts and circumstances?
 - Has there been a change from the prior period and, if so, is the new method more appropriate? If not, should there have been a change?
- What assumptions⁴ are used by the management's expert?
 - Are the assumptions generally accepted within the management's expert's field and are they appropriate for financial reporting purposes?
 - Are assumptions used relevant? Did the assumptions come directly from management or did the management's expert come up with their own assumptions? If the latter, has management reviewed and approved those assumptions? How do the assumptions used by the management's expert compare to industry norms and trends and to most recently available information?

3 For example, a method may include an estimation technique used to establish the fair value of an asset.

4 For example, assumptions may include a discount rate or growth rates in a cash flow projection.

- How has management ensured internal consistency between assumptions used by the expert and those used in other areas of the financial statements?
 - Are the assumptions complete? Have all relevant variables been taken into account?
 - Have alternative assumptions or outcomes been considered?
 - Are the assumptions dependent on management's intention to carry out a certain course of action?
- What source data⁵ is used by the management's expert?
 - Where did the source data used in the management's expert's work originate? Are internal data, inputs or other information provided by the entity? Are external data, inputs or other information independently verifiable?
 - Is the source data used relevant?
 - How did management's expert determine that the source data was relevant and reliable, including as necessary in the circumstance,⁶ how did the management's expert determine that the source data was complete and accurate? For example, did the management's expert test the completeness and accuracy of source data (data, inputs or other information) or did they arbitrarily use source data obtained from the entity?
 - What is the nature, timing and extent of management's expert's communication?
 - When is the work of the management's expert estimated to be completed?
 - Are there touchpoints during the process between management and the management's expert to discuss the progress of the work?
 - Will the work of management's expert be completed in time for the auditor to perform the required work?
 - Does the management's expert's report or communication of results restrict the use of the work of the management's expert such that it no longer could be considered appropriate audit evidence?

⁵ For example, source data may include data such as pension data and other information such as cash flow used in a projection.

⁶ Paragraph 9 of CAS 500 requires the auditor to evaluate whether information produced by the entity is sufficiently reliable for the auditor's purposes, including, **as necessary in the circumstances**: [emphasis added]

(a) Obtaining audit evidence about the accuracy and completeness of the information; and

(b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.

Example 6

Consider a scenario in which management engaged a management's expert to provide the fair value valuation of a property acquired in a business combination. In this scenario, the auditor may obtain an understanding of the work of management's expert through a combination of activities, such as:

- obtaining and reading any form of written agreement between management and the management's expert outlining the terms of the work agreed to (e.g., an engagement letter)
- inquiring of management and, if deemed necessary, inquiring of the management's expert, to better understand the process followed by the management's expert
- reading the management's expert's final report to make sure it complies with the agreed process (or as per the terms of the written agreement or engagement letter).

For example, the auditor may read the engagement letter or equivalent form of written agreement to determine that the management's expert was, in fact, contracted to perform the services the auditor is expecting to be performed. The auditor might check that the engagement letter or equivalent form of written agreement outlines that the management's expert will determine a fair value valuation for the property acquired (by checking the address of the property) and that the valuation was to be performed as at the date of acquisition/effective date of the business combination (rather than the year-end date or other incorrect date). The engagement letter, or equivalent form of written agreement, may include details regarding the process to be followed by the management's expert, such as the requirement that the management's expert's work include performing an on-site inspection of the property and providing support for their fair value valuation.

To better understand what support will be provided for the fair value valuation, the auditor may ask management and the management's expert for more information, if necessary. Such inquiry may help the auditor understand that the support will consist of:

- a summary of the method/technique used for determining the fair value (e.g., a review of comparable transactions)
- a summary of research (including source documents) into fair values for similar properties in the area for the six-month period before and three-month period after the date of acquisition/effective date of the business combination (i.e., comparable transactions)
- a description of the deliverable (e.g., a fair value point estimate versus a fair value range estimate).

Finally, the auditor may read the final report to see that the terms per the engagement letter and the support for the fair value valuation are included.

CAS 500.8 (c) Evaluate the appropriateness of the management's expert's work as audit evidence for the relevant assertion

Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- relevance and reasonableness of methods used
 - relevance and reasonableness of significant assumptions
 - relevance and reliability of significant source data used, including as necessary in the circumstances, the completeness and accuracy of significant source data
 - relevance and reasonableness of the management's expert's findings or conclusions, the consistency of their findings or conclusions with other audit evidence, and whether such findings or conclusions have been appropriately reflected in the financial statements.
- When performing this evaluation, the auditor may consider the degree of uncertainty in the management's expert's findings or conclusions.

When auditing accounting estimates, the auditor is required to comply with CAS 540. CPA Canada's **Implementation Tool** on CAS 540 may assist the auditor in complying with the related requirements.

Example 7

Consider a scenario in which management engaged a management's expert to provide the fair value valuation of a property acquired in a business combination. See [Example 6](#) for the understanding of the work to be performed that the auditor has obtained.

The auditor would evaluate the management's expert's work based on all the information gathered to date. If there are any concerns, the auditor would investigate further. For example, the auditor may consider the following:

- relevance and reasonableness of the method/technique used to determine the fair value of the property:
 - Was it prepared in accordance with the requirements of the applicable financial reporting framework relevant to accounting estimates?⁷
 - Was the use of one valuation technique sufficient in the circumstances?
- relevance and reasonableness of significant assumptions:
 - Was six months before and three months after the acquisition date/effective date of the business combination a reasonable amount of time?
 - Were relevant properties selected for comparison?
- relevance and reliability of significant source data:
 - Where was comparative transaction information obtained?
- relevance and reasonableness of the fair value valuation included within the final report:
 - If the management's expert's work provides a fair value range estimate rather than a point estimate, the auditor would need to assess whether the size of the range is appropriate to use the management's expert's work as audit evidence.

⁷ CAS 540.08 (a)

Step 4: Conclude on the appropriateness of the management's expert's work as audit evidence for the relevant assertion

Based on the results of the procedures performed in Steps 1 through 3 of this Tool, the auditor concludes, and documents that conclusion, as to whether information prepared using the work of the management's expert provides appropriate audit evidence for the relevant assertion and responds appropriately to the identified risk of material misstatement.

Example 8

Consider a scenario in which management engaged a management's expert to provide the fair value valuation of a property acquired in a business combination.

The auditor, assuming no concerns are raised in previous steps, may conclude it appropriate to use the work of the management's expert as audit evidence for fair value of the property acquired in a business combination.

[A] Have regard for the significance of the management's expert's work

Depending on the significance of the management's expert's work for the auditor's purposes, the nature, timing and extent of audit procedures may be affected. More importantly, the determination of the significance will help the auditor determine how much and what type of work needs to be done.

The nature, timing and extent of audit procedures in relation to the management's expert's work may be affected by such matters as:

- nature and complexity of the matter to which the work of the management's expert relates
- risks of material misstatement in the matter
- availability of alternative sources of audit evidence
- nature, scope and objectives of the management's expert's work
- whether the management's expert is employed by the entity or engaged by the entity to provide relevant services
- extent to which management can exercise control or influence over the work of the management's expert
- whether the management's expert is subject to technical performance standards or other professional or industry requirements (e.g., National Instrument 43-101 Technical Reports and 51-101 for Oil and Gas)
- nature and extent of any controls within the entity over the management's expert's work
- auditor's knowledge and experience of the management's expert's field of expertise
- auditor's previous experience with the work of the management's expert

[B] Consider the effect of an inconsistency in, or doubts over reliability of, audit evidence

If, while the auditor is evaluating the management's expert (including their work):

1. audit evidence obtained from one source is inconsistent with that obtained from another, or
 2. the auditor has doubts over the reliability of information to be used as audit evidence,
- the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit (see paragraph 11 of CAS 500).

Obtaining audit evidence of a contradictory nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, cash flows used in the determination of the fair value of an investment property are not consistent with cash flows used for impairment testing in a going concern analysis. CAS 230, *Documentation*, includes a specific documentation requirement if the auditor identifies information inconsistent with the auditor's final conclusion regarding a significant matter.

It may be difficult to detect any management bias at an account level when trying to determine whether there are inconsistencies or doubts about the reliability of audit evidence. Inconsistencies and doubts may be identifiable only when specific groups of accounting estimates are considered or when all accounting estimates are taken as a whole. In considering whether groups of accounting estimates or all accounting estimates taken as a whole indicate management bias, the auditor may consider whether there is a pattern (e.g., an overall bias to reduce revenue to reduce income tax).

If inconsistencies or doubts over the reliability of audit evidence are noted, the auditor may discuss these findings with management and/or the management's expert. The auditor can then determine the impact on their risk assessment and audit response.

The initial evaluation of competence, capabilities and objectivity of the management's expert may be reconsidered as the audit progresses if unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary.

[C] Documentation

Although there are no specific documentation requirements in CAS 500, the auditor is required to comply with the documentation requirements in CAS 230. Paragraph 8 of CAS 230 requires the auditor to prepare audit documentation sufficient to enable an experienced auditor having no previous connection with the audit to understand the:

- nature, timing and extent of the audit procedures performed to comply with the CASs and applicable legal and regulatory requirements
- results of the audit procedures performed, and the audit evidence obtained
- significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

In addition to documenting the procedures undertaken in Steps 1 through 4 of this Tool, the auditor may also consider:

- obtaining written representation from the management's expert about any interests or relationships with the entity of which the management's expert is aware
- documentation requirements of CAS 540 when the management's expert's work is used in the preparation of an accounting estimate. (see [CPA Canada's Implementation Tool for Auditors—Auditing Accounting Estimates Under CASs: What, Why and How?](#)—Step 8).
- including in the audit documentation information to be used as audit evidence prepared using the work of the management's expert in accordance with paragraph 8 of CAS 230.
- information inconsistent (see Arrow B in [Diagram 1](#)) with the auditor's final conclusion regarding a significant matter; the auditor shall document how the auditor addressed the inconsistency (see paragraph 11 of CAS 230).

Resources

Visit the [CPA Canada website](#) where you will find resources on related topics:

- [Implementation Tool for Auditors—Communications Between the Auditor and Those Charged with Governance: What, When and How?](#)
- [Implementation Tool for Auditors—Auditing Accounting Estimates Under CAS: What, Why and How?](#)
- [Audit and Assurance Alert—Challenges in Complying with the Requirements When Auditing Accounting Estimates](#)
- [Guide—Audits of Financial Statements That Contain Amounts That Have Been Determined Using Actuarial Calculations](#)

Consultation and Feedback

In the interest of continuous improvement and our commitment to the development of quality non-authoritative guidance, we would welcome any comments or questions regarding this non-authoritative guidance by July 31, 2017. Comments on this Tool, or suggestions for future Implementation Tools should be sent to:

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