

STATEMENT 3.282
AUDITING GUIDELINE
RELIANCE ON OTHER SPECIALISTS

Introduction

1. Paragraph 7 of the Statement of Auditing Standard No. 3.101 Audit Approach states that:

“The auditor should obtain relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusions therefrom”.

This guideline provides guidance on the principles to be followed by the auditor when he wishes to place reliance on audit evidence provided by other specialists.

2. The guideline does not apply to reliance on specialists employed by the auditor, to whom the same considerations apply as with other audit staff. Guidance in respect of the auditor's employees is given in Statement 3.210 'Planning, controlling and recording'.

This guideline should be read in conjunction with the statements of Auditing Standard and the related Auditing Guidelines.

3. The auditor has, through training and experience, a general knowledge of business, but is not expected to have the detailed knowledge and experience of specialists in other disciplines.
4. For the purpose of this guideline, a specialist is a person or firm possessing special skills, knowledge and experience in a discipline other than accounting or auditing.
5. During the course of an audit, the auditor may need to consider audit evidence in the form of statistical data, reports, opinions, valuations or statements from specialists such as valuers, architects, engineers, actuaries, geologists, lawyers, stockbrokers or quantity surveyors.

Examples include:

- (a) valuations of fixed assets, including freehold and leasehold property, plant and machinery, works of art and antiques;
- (b) the measurement of work done on long-term contracts;

- (c) valuations of certain types of stocks and consumable materials, including the determination of their quantity and composition;
 - (d) geological determination of mineral reserves and characteristics;
 - (e) the legal interpretation of agreements, statutes or regulations;
 - (f) legal opinions on the outcomes of disputes and litigation; and
 - (g) actuarial advice for the purpose of assessing the cost of pension provision and its disclosure in the employer's financial statements.
6. The guidance below is presented in the context of reliance on the work of a particular specialist. Where the nature of the business of an enterprise is such that a number of specialists produce reports routinely for management purposes, (for example, regular site valuation reports by quantity surveyors in a contracting company) the scope of the work performed by the auditor will need to take account of the frequent and systematic way that reports are produced and his previous experience of the reliability and objectivity of such information.

Considerations for the Auditor

Determining the need for specialist evidence

- 7. When planning the audit, the auditor should consider whether specialist evidence may be necessary in order to form his opinion.
- 8. When determining the need for specialist evidence regarding information contained in, on relevant to, the financial statements, the auditor should consider:
 - (a) the materiality of, and the likelihood of significant error in, the information being examined;
 - (b) the complexity of the information, together with his knowledge and understanding of it and of any specialism relating to it; and
 - (c) whether there are any alternative sources of audit evidence.
- 9. Requests for specialist evidence should be made either by the management of the client or by the auditor after obtaining the consent of management.

10. Where management is unable or unwilling to obtain specialist evidence, the auditor does not have a responsibility to seek that evidence independently by engaging his own specialist. If there is insufficient alternative audit evidence to enable the auditor to draw reasonable conclusions, then he can properly discharge his responsibilities by qualifying his audit report.

Competence and objectivity of the specialist

11. The auditor should satisfy himself that the specialist is competent to provide the audit evidence he requires. Normally this will be indicated by technical qualifications or membership of an appropriate professional body. Exceptionally, in the absence of any such indications of his competence, the specialist's experience and established reputation may be taken into account.
12. The auditor should consider the relationship between the specialist and the client: whether, for example, the specialist or any of his partners or co-directors are closely related to the client, or are directors or employees of the client or its associates. In particular, the auditor should consider whether the specialist's objectivity is likely to be impaired by such a relationship. This may be the case if the specialist has a significant financial interest in the client. He should also consider the extent to which the specialist is bound by the disciplines of his professional body or by statutory requirements to act responsibly, notwithstanding his relationship to the client.
13. The auditor's assessment of the specialist's competence and objectivity will influence his evaluation of the evidence provided by the specialist, and his decision on the extent to which he can place reliance on that evidence. If the auditor believes that the specialist may not be sufficiently competent or objective to provide the audit evidence which is needed, he should discuss his reservations with the management of the client.

Agreement on scope of the work of the specialist

14. It is desirable that, where the evidence of a specialist is to be provided, there should be consultation between the auditor, the client and the specialist, in order to establish the specialist's terms of reference. This should take place as soon as is practicable after the specialist has been appointed. The terms of reference should be documented, reviewed annually where applicable, and preferably confirmed in writing, and should include the following:
 - (a) the objectives, scope and subject matter of the specialist's work;

- (b) the sources of information to be provided to the specialist;
- (c) the identification of any relationship which may affect the specialist's objectivity;
- (d) the assumptions upon which the specialist's report depends, and the bases to be used, and their compatibility with the assumptions and bases used in preparing the financial statements;
- (e) where appropriate, a comparison of the assumptions and bases to be used with those used in preceding periods, together with explanations for any changes;
- (f) the use to be made of the specialist's findings in relation to the financial statements or other financial information on which the auditor is required to report; and
- (g) the form and content of the specialist's report or opinion that would enable the auditor to determine whether or not the findings of the specialist constitute acceptable audit evidence.

Where it is not practicable for consultation to take place before the specialist carries out his work, the auditor will nevertheless need to obtain an understanding of the specialist's terms of reference and of the work he has been instructed to carry out.

Evaluating the findings of the specialist

15. The auditor will need to evaluate the audit evidence provided by the specialist to determine whether it is sufficient, relevant and reliable enough for him to draw reasonable conclusions from it. The procedures which the auditor will apply will depend upon the nature of the evidence, the circumstances necessitating its preparation, the materiality of the items to which it relates and the auditor's assessment of the specialist's competence and objectivity.
16. The auditor should make a detailed examination of the specialist's evidence including ascertaining whether:
 - (a) the data provided by management to the specialist is compatible with that used for the preparation of the financial statements;
 - (b) the assumptions and bases used by the specialist are compatible with those used in preparing the financial statements, and consistent with earlier years.
 - (c) the information supplied by the specialist has been prepared and presented in accordance with his terms of reference;

- (d) the specialist has qualified his opinion, or expressed any reservations;
 - (e) the effective date of the specialist's findings is acceptable;
 - (f) the details of the specialist's findings are fairly reflected in the financial statements.
17. The specialist is responsible for ensuring that he uses assumptions and bases which are appropriate and reasonable. Where the skills applied by the specialist involve highly complex, technical considerations, then it may be that the level of the auditor's understanding of them can be no higher than that of the informed layman. However, the auditor should obtain a general understanding of the assumptions and bases used by the specialist and consider whether they appear reasonable, given his knowledge of the client's business, and consistent with other audit evidence.
18. Where specialist evidence is obtained on a recurring basis, comparison of the key features of the findings with those of prior years may indicate to the auditor whether there are any grounds for doubting the reasonableness of the evidence.
19. If the auditor considers that the specialist's evidence is not relevant or reliable enough to assist him in forming an opinion on the financial statements, or that the specialist may not have acted within his terms of reference, the auditor should endeavour to resolve the matter by discussion with the management of the client and with the specialist, and by further examination of the specialist's findings. In rare circumstances it may be necessary to obtain the opinion of another specialist. However, a second opinion might only relate to part of the original specialist's evidence, for example, the appropriateness of the bases used.

Reporting

20. The auditor should not ordinarily refer in his report to any specialist on whose evidence he has relied. Such a reference might be misunderstood as either a qualification of his opinion or a division of responsibility, when neither of these is intended.
21. Where the auditor is unable to satisfy himself regarding the specialist's evidence, or where no such evidence is available, and there is no satisfactory alternative source of audit evidence, he should consider qualifying his audit report. The situations in which this may be necessary include:

- (a) where management is unable or unwilling to obtain specialist evidence;
- (b) where the relevance and reliability of the specialist's evidence remains uncertain;
- (c) where management refuses to accept and make use of specialist evidence which is relevant, reliable and material to the financial statements; and
- (d) where management refuses to agree to the appointment of another specialist when the auditor considers that a second opinion is needed.