

EXPOSURE DRAFT
Standard on Internal Audit (SIA)
USING THE WORK OF AN EXPERT

Invitation to Comments

The Internal Audit Standards Board (hitherto known as the Committee on Internal Audit), of the Institute of Chartered Accountants of India invites comments on the Exposure Draft of the Standard on Internal Audit (SIA), *Using the Work of an Expert*. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to:

Secretary, Internal Audit Standards Board,
The Institute of Chartered Accountants of India,
ICAI Bhawan,
C-1, Sector-1, Noida – 201 301.

*The last date for receiving comments is **January 29, 2009**. Comments can also be e-mailed at cia@icai.in.*

The following is the text of the Standard on Internal Audit (SIA), “Using the Work of an Expert”, issued by the Council of the Institute of Chartered Accountants of India. This Standard should be read in conjunction with the “Preface to the Standards and Guidance Notes on Internal Audit”, issued by the Institute.

Introduction

1. The purpose of this Standard on Internal Audit is to establish standards and guidelines in cases where the internal auditor uses the work performed by an expert.
2. **The internal auditor should obtain technical advice and assistance from competent experts if the internal audit team does not possess the necessary knowledge, skills, expertise or experience needed to perform all or part of the internal audit engagement.**
3. An expert for the purpose of this Standard is a person, firm or other association of persons possessing special skill, expertise, knowledge and experience in a particular field.

Independence of the Expert

4. **When the internal auditor uses the work of an expert, he should satisfy himself about the competence, objectivity and the independence of such expert and consider the impact of such assistance or advice on the overall result of the internal audit engagement, specially in cases where the outside expert is engaged by the senior management or those charged with governance.**

Determining the Need to Use the Work of an Expert

5. In course of the internal audit engagement, the internal auditor may seek to obtain assistance or advice in the form of reports, opinions, valuations and statements of an expert.
6. **When determining whether to use the work of an expert or not, the internal auditor should consider:**
 - the materiality of the item being examined.
 - the nature and complexity of the item including the risk of error therein.
 - the other internal audit evidence available with respect to the item.

Skills and Competence of the Expert

7. **When the internal auditor plans to use the expert's work, he should satisfy himself as to the expert's skills and competence by considering the expert's:**
 - professional qualifications or membership in an appropriate professional body .
 - reputation of the expert in the relevant discipline.
 - knowledge and specific experience of the expert in the industry to which the auditee entity operates.

Objectivity of the Expert

8. **The internal auditor should consider the objectivity of the expert.** The risk that an expert's objectivity will be impaired increases when the expert is:

- employed by the client, or
- related in some other manner to the client.

Accordingly, in these circumstances, the internal auditor should consider performing more extensive procedures than would otherwise have been planned, or he might consider engaging another expert.

9. **The internal auditor should assess and evaluate the relationship of the expert to the entity under internal audit to ensure that independence and objectivity are maintained throughout the engagement. In such assessment, the internal auditor should ascertain that the expert has no personal, financial or organizational interests that will prevent him from rendering unbiased and impartial judgments and opinion.**

Evaluating the Work of an Expert

10. **When the internal auditor intends to use the work of an expert, he should gain knowledge regarding the terms of the expert's engagement and such other matters as:**

- the objectives and scope of the work.
- a general outline as to the specific items in the expert's report.
- access to records, personnel and physical properties.
- ownership and custody of engagement documentation and working papers, if applicable.
- confidentiality of the expert's work, including the possibility of its communication to third parties.
- the expert's relationship with the client, if any.
- confidentiality of the client's information used by the expert.

11. **The internal auditor should seek reasonable assurance that the expert's work constitutes appropriate evidence in support of the overall conclusions formed during the internal audit engagement, by considering:-**

- the source data used
- the assumptions and methods used and, if appropriate, their consistency with the prior period,
- the results of the expert's work in the light of the internal auditor's overall knowledge of the business and of the results of his audit procedures.

12. **The internal auditor should consider whether the expert has used source data which are appropriate in the circumstances.** The procedures to be applied by the internal auditor include:

- making inquiries of the expert to determine how he has satisfied himself that the source data are sufficient, relevant and reliable,

- conducting independent review procedures on the data provided by the client entity to the expert to obtain reasonable assurance that the data are appropriate.

13. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the expert. The internal auditor does not have the same expertise and, therefore, cannot always challenge the expert's assumptions and methods. **The internal auditor should obtain an understanding of those assumptions and methods to determine that they are reasonable and consistent based on the internal auditor's knowledge of the client's business and on the results of his review procedures.**

14. **In exceptional cases where the work of an expert does not support the related representations in the overall systems, procedures and controls of the entity, the internal auditor should attempt to resolve the inconsistency by discussions with the client and the expert.** Applying additional procedures, including possibly engaging another expert, may also assist the internal auditor in resolving the inconsistency.

Reference to an Expert in the Internal Audit Report

15. **The internal auditor should not, normally, refer to the work of an expert in the internal audit report.** Such a reference may, however, be considered useful, in case of reporting in respect of cases such as material weaknesses or deficiencies in the internal control system or in such other cases where the internal auditor feels that such a reference would benefit the readers of the report. **While referring to such work of the expert, the internal auditor should outline the assumptions, broad methodology and conclusions of the expert** Where, in doing so, the internal auditor considers it appropriate to disclose the identity of the expert, he should obtain prior consent of the expert for such disclosure if such consent has not already been obtained.

Effective Date

16. This Standard on Internal Audit is applicable to all internal audits commencing on or after _____. Earlier application of the SIA is encouraged.