

EXPOSURE DRAFT

STANDARD ON INTERNAL AUDIT (SIA) 240

USING THE WORK OF AN EXPERT *

The Internal Audit Standards Board of The Institute of Chartered Accountants of India (ICAI) invites comments on Standard on Internal Audit (SIA) 240, *Using the Work of an Expert*.

Comments are most helpful if they indicate a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments can be e-mailed either at cia@icai.in; or at concurrentaudit@icai.in

Last date for sending comments is **March 28, 2019**.

** This Standard on Internal Audit (SIA 240) seeks to revise and supersede Standard on Internal Audit (SIA) 16, Using the Work of an Expert, issued in March 2009 (as recommendatory in nature). This SIA is being issued in its place as a mandatory standard from its effective date.*

STANDARD ON INTERNAL AUDIT (SIA) 240

USING THE WORK OF AN EXPERT

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This Standard on Internal Audit (SIA) 240, *Using the Work of an Expert*, issued by the Council of the Institute of Chartered Accountants of India should be read in conjunction with the "Preface to the Standards on Internal Audit", "Framework governing Internal Audits" and "Basic Principles of Internal Audit" issued by the Institute.

1. INTRODUCTION

- 1.1 An Expert, for the purpose of this Standard on Internal Audit (SIA), refers to a person or an entity (such as an association of persons, a firm or a company), which possesses certain special skills or unique knowledge, along with some years of experience and expertise in a particular area, field or discipline.
- 1.2 In conducting internal audit assignments, the Chief of Internal Audit may seek the assistance and place reliance on the work of an Expert. This may be in the form of specific audit procedures covering a complex area or field (such as, Information Technology, Civil/Electrical/Mechanical Engineering, Banking, Oil & Gas Industry, etc.) or a unique and specialised discipline (such as, Actuarial Services, Forensic Accounting, Taxation, Treasury operations, Financial products, Risk Modelling, Intellectual Property or business valuations, etc.).
- 1.3 An Expert is generally appointed to help complete part of an internal audit assignment in situations where the required skills are not available within the internal audit team or function. The Expert can be an employee of the company, much like the Internal Auditor, provided all criteria concerning his independence and objectivity with respect the internal audit assignment is fulfilled.
- 1.4 Scope: This Standard applies to all internal audit assignments where part of the internal audit work is completed by an Expert and relied upon by the Internal Auditor to provide an independent assurance.

However, an external service provider, engaged to provide regular internal audit services, is not covered by this Standard. For such appointments, the Internal Auditor shall refer to another SIA 230 on “Objectives of Internal Audit” to fulfil the requirements of engaging External Service Providers, such as ensuring an Engagement Letter to cover the terms and conditions of engagement.

2. OBJECTIVES

- 2.1 The objectives of using the work of an Expert is to:
- (a) Obtain technical assistance and support from competent experts where the internal audit team does not possess the necessary knowledge and expertise;
 - (b) Internal audit procedures conducted in complex and specialised areas meet expected quality standards;
 - (c) Outcome of the internal audit work is credible and reliable; and
 - (d) Work performed is in conformance with the applicable pronouncements of the Institute of Chartered Accountants of India.
- 2.2 The overall objective of using the work of an Expert is to allow the Internal Auditor to place reliance on the technical work completed in the most informed manner so as to form an opinion on the outcome of the audit procedures and to add further credibility and reliability to the findings of the internal audit.

3. REQUIREMENTS

- 3.1 The Internal Auditor shall make an independent determination of using the work of an Expert based on:
- (a) The technicality and complexity of the subject matter of internal audit;
 - (b) The risk assessment and importance of the subject matter; and
 - (c) A comparison of the expertise available within the internal audit team to conduct a quality audit with the expertise required to execute the technical procedures.
- 3.2 The Internal Auditor shall have the authority to select, appoint and engage the Expert. Where this authority rests with someone else, then the Internal Auditor shall conduct procedures to validate the independence and objectivity of the Expert and share any concerns highlighted with those who have the authority to make the decision regarding appointment of the Expert. (Para 4.1)
- 3.3 The Internal Auditor shall conduct an independent evaluation of the qualifications and credentials of the expert. (Para 4.2)

- 3.4 Where the findings of the Expert will form part of the assurance report to be issued by the Internal Auditor, the Internal Auditor shall participate in the defining the scope, approach and work to be conducted by the Expert. (Para 4.3). Otherwise, the Internal Auditor shall not incorporate the finding of the Expert in his Internal Audit report. (Para 3.6).
- 3.5 The Internal Auditor shall perform an evaluation of the work completed by the Expert to ensure that the work completed constitutes appropriate and reliable evidence to support the overall conclusions to be reported. (Para 4.4).
- 3.6 The Internal Auditor shall retain ultimate responsibility for internal audit conclusions and opinions which are incorporated in his internal audit report, unless specifically mandated otherwise by the Assurance User (the recipient of the Internal Audit Report). Hence, the Internal Auditor shall not refer to the work of an Expert in his Internal Audit Report. (Para 4.5)

4. EXPLANATORY COMMENTS

4.1 Independence and Objectivity of the Expert (Para 3.2):

The Internal Auditor should conduct procedures to assess the ability of the Expert to function in an independent and objective manner, such as the following:

- (a) The appointing and supervisory authority: Where the authority to appoint and supervise the Expert rests with someone other than the Internal Auditor, they could also have the ability to influence the outcome of the Expert's work.
- (b) Employee of the Company or External Service provider: An external professional will be less influenced by company management than an Expert who is an employee of the company and reporting to management.
- (c) Relationship of Expert: Where there is any relationship of the Expert with Company Management, especially with those who have some role in the internal audit assignment, the objectivity of the Expert may get compromised.

- (d) Personal Interests: Where the Expert has any personal, financial or organisational interests (such as significant portion of his income is derived from the company), it may prevent the rendering of an unbiased and impartial report.

4.2 Qualifications and Credentials of the Expert (Para 3.3):

The Internal Auditor shall independently validate the qualification and credentials of the Expert, with procedures, such as the following:

- (a) Confirmation of educational & professional qualifications and membership of professional bodies;
- (b) Background and reference checks of the experience and/or reputation of the Expert;
- (c) Details of instances and nature of similar past assignments undertaken; and
- (d) Self Certification by the Expert regarding his qualifications, expertise, any conflict of interest or any pending disciplinary actions.

4.3 Defining the Scope, Approach and Work of the Expert (Para 3.4):

Where the Internal Auditor plans to incorporate the findings of the work of the Expert as part of his Internal Audit Report, the Internal Auditor shall participate in defining the Plan and Procedures of the Expert, as follows (indicative list):

- (a) Define the audit objective of the technical procedures planned;
- (b) Identify the Subject matter to be reviewed and evaluated, especially what is included or excluded;
- (c) Define any specific requirements or limitations of the work to be undertaken;
- (d) The information required by the Expert and the source of that information, the nature and reliability of the original data to be used;
- (e) Define any assumptions which need to be incorporated as part of the exercise;
- (f) Extent of access to required systems, locations, records and company personnel; and
- (g) Clarify the confidentiality of information requirements and ownership of work papers.

4.4 Evaluating the Work of an Expert (Para 3.5)

During and after completion of the work by the Expert, the Internal Auditor shall conduct an evaluation of the outcome of the findings of the Expert to make a determination of the quality of the work performed and to validate the reliability of the findings, as follows:

- (a) A detailed review of the report and findings;
- (b) Extent and thoroughness of the procedures completed;
- (c) Any scope limitations or other hurdles faced in completing the assignment, such as missing information or access limitations;
- (d) If appropriate, a review of certain work papers to understand the basis of significant observations; and
- (e) The harmony and congruence of the Expert's findings with the rest of the Internal Audit report.

In exceptional cases, where the findings of the Expert are not consistent with other aspects of the entity, the Internal Auditor should attempt to resolve the inconsistency through discussions with the Auditee and the Expert. In extreme situations, conducting additional procedures or engaging another Expert may be required to resolve the inconsistency.

4.5 Reference to Expert in Internal Audit report (Para 3.6):

Where the Assurance User mandates the Expert to issues his own Report, or where the findings of the Expert are included separately as an addendum (e.g., an Appendix) to the Internal Audit report and the Internal Auditor has not participated in the planning and supervision of the Expert's work, the Internal Auditor shall make an exclusion caveat to his internal audit report so as to clearly exclude his responsibility from the work of the Expert.

4.6 Documentation: To confirm compliance of audit procedures with this SIA, a list of the documents required is as follows:

- (a) Details of procedures conducted to validate the requirements of an Expert (Para 3.1).
- (b) Details of procedures conducted to validate the Independence and Objectivity of the Expert (Para 4.1).

- (c) Details of procedures conducted to verify the Qualifications and Credentials of the Expert (Para 4.2).
- (d) Details of procedures conducted to define the Scope, approach and work plan of the Expert (Para 4.3).
- (e) A summary of the review completed to evaluate the quality and reliability of the work completed (Para 4.4).

5. EFFECTIVE DATE

- 5.1 This Standard is applicable for internal audits beginning on or after a date to be notified by the Council of the Institute.