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The Role of Subject Matter Experts in Enhancing Audit Quality

In today's increasingly complex financial environment, the role of Subject Matter Experts (SMEs) has become indispensable to the audit process. These internal specialists—whether in tax, valuation, IT, or regulatory compliance—bring a depth of expertise that is crucial for addressing the intricate and specialized challenges that arise during audits. Their involvement is particularly valuable in areas where the complexities of modern business operations and regulatory requirements exceed the traditional scope of an auditor's expertise. For instance, when dealing with issues such as sophisticated financial instruments, complex tax regulations, or the valuation of intangible assets, SMEs offer insights that help auditors to navigate these challenges effectively and ensure that all pertinent factors are considered.

The auditor synthesizes the specialized input provided by SMEs, integrates it with broader audit objectives, and makes the final judgments that shape the audit report. This responsibility underscores the auditor's role in ensuring that the audit is conducted with the highest standards of rigor and objectivity, balancing the technical advice from SMEs with professional skepticism and independent judgment.

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SMEs as Valuable Advisors in the Audit Process

Subject Matter Experts contribute to the audit by offering specialized knowledge in areas where the auditor needs support. For instance, a multinational corporation with complex tax obligations across various jurisdictions would benefit from the specialized knowledge of a tax expert. Similarly, in audits involving significant intangible assets, such as patents or proprietary technology, the expertise of a valuation specialist is indispensable.

However, it is crucial to understand that SMEs serve in an audit team. The auditor must critically assess the opinion/advice provided by SMEs, ensure its relevance to the broader audit context, and incorporate it judiciously into the audit process. The ultimate responsibility for audit decisions and outcomes rests squarely on the auditor, who must integrate expert advice into a coherent and well-founded audit opinion.

02

Factors Influencing the Auditor's Use of SMEs

Several factors influence when and how auditors seek advice from SMEs:

1. **Complexity of the Audit Issue:** When faced with highly technical or complex issues, auditors are more likely to consult SMEs. This includes situations involving sophisticated financial instruments, advanced IT systems, or uncertain tax positions, where specialized knowledge is essential.
2. **Auditor Experience:** The level of experience of the auditor plays a significant role in determining their reliance on SME advice. Less experienced auditors may lean more heavily on expert input, whereas seasoned auditors, while recognizing the value of SMEs, may integrate this advice into their broader experience-driven judgment.
3. **Regulatory and Client Pressures:** In highly regulated industries or in audits involving significant risk of litigation, auditors may be compelled to seek formal advice from SMEs to ensure compliance with stringent standards/acts/rules.
4. **Formalization of Advice:** Documenting SME advice and integrating it into the audit evidence is a critical aspect of the audit process. Formal documentation not only supports the auditor's decisions but also provides a defensible audit trail that can withstand regulatory scrutiny or legal challenges.

03

Enhancing Audit Quality through SME Collaboration

Collaboration between auditors and SMEs enhances audit quality by:

Improving Risk Management: SME insights help auditors better identify and manage risks, such as the nuances of financial derivative valuations or complex tax regulations, thus reducing the risk of material misstatements.

Increasing Audit Efficiency: Leveraging SME expertise allows auditors to streamline their processes, focusing on the most critical audit areas. This efficiency is particularly valuable in audits with constrained timelines or limited resources.

Strengthening Audit Documentation: Formalizing and documenting SME advice leads to more robust audit documentation, providing a strong foundation for the audit's conclusions, particularly in areas subject to regulatory scrutiny.

04

Challenges and Considerations

Despite the benefits of involving SMEs, there are challenges that auditors must navigate. These include managing potential conflicts of interest, ensuring that the auditor remains independent and does not overly rely on expert advice, and coordinating effectively to ensure that the advice provided is relevant, timely, and integrated into the audit strategy.

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Conclusion

Subject Matter Experts (SMEs) play an essential role in supporting auditors by providing specialized knowledge that enhances the audit process. By effectively integrating SME advice while maintaining professional judgment and skepticism, auditors can deliver high-quality audits that meet the rigorous demands of today's financial landscape. The collaboration between auditors and SMEs is a key component of audit quality, ensuring that audits are thorough, reliable, and adhere to the highest professional standards.



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