ISSUES PAPER
ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Experts”

A. Definitions

1. As agreed at the IAASB June meeting, the Task Force has made the definitions (paragraph 6) more concise by removing the generic definition of expert, and condensing the definitions of auditor’s internal expert and auditor’s external expert. An auditor’s internal expert is now parenthetically defined as part of the definition of auditor’s expert in paragraph 6(a) as “a partner or staff, including temporary staff, of the auditor’s firm or a network firm.” An auditor’s external expert is, by implication, an auditor’s expert who is not an auditor’s internal expert. This construction avoids the need to include in the definition terms such as “engaged, but not employed,” which some members found confusing. It also avoids any possibility that some auditor’s experts may be neither internal nor external, which could happen if both those categories were defined.

2. How an auditor’s expert is treated for the purposes of [proposed] ISQC 1, and [proposed] ISA 220, has been removed from the definitions, and is included in the Application Material at paragraphs A3 and A4 of Agenda Item 13-B.

Network firms

3. After further consultation with the IESBA’s Independence Task Force, a change has been made to how auditor’s experts from some network firms are to be treated. Under the Code, a network firm is:

A (firm or entity that belongs to a) larger structure:

(a) That is aimed at co-operation; and

(b) That is:

- clearly aimed at profit or cost sharing; or
- shares:
  - common ownership,
  - control or management,
  - common quality control policies and procedures,
  - common business strategy,
  - the use of a common brand-name, or
  - a significant part of professional resources.

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1 [Proposed] ISQC 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.”
4. In the June draft, an auditor’s expert from a network firm was only considered to be “internal” if the network firm shared common quality control policies and procedures with the auditor’s firm. Under this approach, auditor’s experts from other network firms would, therefore, be “external.” However, because auditor’s external experts are excluded from the definition of engagement team, auditor’s external experts from other network firms would not be part of the engagement team and would therefore not be required to be independent. This would be contrary to the intention of the IFAC Code. The task force therefore recommends that the definition of auditor’s internal experts include auditor’s experts from any network firm, regardless of whether that firm shares common quality control policies and procedures with the auditor’s firm. This is reflected in the parenthetical definition of internal expert included in paragraph 6(a) of Agenda Item 13-B.

Accounting and auditing expertise

5. At the June meeting, the IAASB agreed that experts in specialized areas accounting and auditing should be excluded from ISA 620. It also agreed that a footnote proposed by the Task Force noting that this ISA may be of assistance in implementing quality control policies and procedures when the auditor uses the work of such an expert should be deleted, which the Task Force has done in the revised draft.

6. Following a suggestion from the Chair of the IAASB, the Task Force recommended a number of minor changes to ISA 220 and ISQC 1 with respect to experts in specialized areas accounting and auditing, and the addition of the following paragraph to the application material in ISA 220 to address this issue:

“Direction and supervision with respect to a member of the engagement team using expertise in a specialized area of accounting or auditing, includes matters such as:

- Obtaining a sufficient understanding of that area to determine the nature, scope and objectives of that member’s work; and to evaluate the adequacy of that work.

- Agreeing with that member the nature, scope and objectives of that member’s work; and the respective roles of, and the nature, timing and extent of communication between, that member and other members of the engagement team.

- Evaluating the adequacy of that member’s work, including:
  - The relevance and reasonableness of that member’s findings or conclusions, and their consistency with other audit evidence.
  - If that member’s work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods.
  - If that member’s work involves the use of source data that is

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3 “IFAC Code of Ethics for Professional Accountants.”
significant to that member’s work, the relevance, completeness, and accuracy of that source data.”

7. The Quality Control Task Force has agreed in principle with the changes suggested, but may make some wording changes.

**Matters for IAASB Consideration**

Q1. Does the IAASB agree with the revised definitions in paragraph 6?
Q2. Does the IAASB agree that experts from all network firms should be included as “internal?”
Q3. Does the IAASB agree, in principle, with the suggested addition to ISA 220 noted above?

**B. Determining the Need for an Expert**

**Consultation**

8. At the June IAASB meeting, the IAASB agreed that the ISA should continue to cover consultation with an expert, and asked the Task Force to consider whether the ISA should elaborate on the distinction between (a) consultation, and (b) discussion with an expert intended to educate the expert.

9. The Task Force agrees that this is a distinction that should be made clearer in the ISA. Text has been added to paragraph A9 of Agenda Item 13-B to cover this issue. That text draws on the following, which appears in ISA 220 and ISQC 1:

“Effective consultation on significant technical, ethical, and other matters within the firm or, where applicable, outside the firm can be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.”

**Matter for IAASB Consideration**

Q5. Does the IAASB agree with the text added to paragraph A9 of Agenda Item 13-B that distinguishes between consultation with an expert, and discussion with an expert intended to educate the expert?

**C. Documentation and Written Agreement**

10. At the June IAASB meeting, the IAASB asked the Task Force to consider whether the auditor should be required to document:

(a) The auditor’s agreement with the auditor’s expert when that agreement is not in writing; or
(b) The auditor’s evaluation of the adequacy of the auditor’s expert’s work.

Agreement with the auditor’s expert

11. The Task Force reviewed the relevant text in the draft, and in light of the discussion at the June meeting and a reconsideration of response to ED-ISA 620, identified potential confusion in the text between: having the agreement in writing, and documenting the agreement.

12. The text has been changed to address this, in particular a new requirement has been added to document the agreement when it is not in writing, and the application material more clearly differentiates between a written agreement and documentation.

Evaluation of the adequacy of the auditor’s expert’s work

13. The IAASB noted that ISA 610\(^4\) includes the following requirement, and asked the task force to consider whether ISA 620 should have a similar requirement,

> “When the external auditor uses specific work of the internal auditors, the external auditor shall document conclusions regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work …”

14. The Task Force believes that a similar requirement is not necessary for ISA 620 as such matters would already be required to be documented if they are significant under the general requirements of ISA 230. The Task Force has however, added application material re documentation that includes “the auditor’s evaluation of the adequacy of the auditor’s expert’s work for the auditor’s purposes” as a matter that it may be appropriate in the particular circumstances of the engagement for the auditor to document (paragraph A44 of Agenda Item 13-B).

Matter for IAASB Consideration

Q6. Does the IAASB agree with inclusion of the new documentation requirement, and that it is not necessary to require documentation in all cases of the auditor’s evaluation of the adequacy of the auditor’s expert’s work?

D. Management’s Experts

15. At the June IAASB meeting, the IAASB agreed to retain as part of ISA 500\(^5\) the material relating to management’s experts. The Task Force was, however, asked to consider whether the requirement added to ISA 500 regarding management’s experts (which had been included as a sub-point of the more general requirement regarding the auditor’s use of information prepared by the entity), should be made into separate requirement. The IAASB indicated that a separate requirement may allow for a clearer identification of the

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\(^4\) ISA 610 (Redrafted), “The Auditor’s Consideration of the Internal Audit Function.”

circumstances in which the requirement is to be applied, and a clearer differentiation from other information prepared the entity that the auditor may use.

D2. The Task Force considered the placement of the requirement in ISA 500, and agreed that a separate, and slightly reworded, requirement is appropriate. The new requirement is at paragraph 8 of ISA 500 (Agenda Item, 13-E).

**Matters for IAASB Consideration**

Q7. Does the IAASB agree with the amended material included in ISA 500 (Redrafted)?