ISA 620 USING THE WORK OF AN AUDITOR’S EXPERT
Proposed revised and redrafted International Standard on Auditing issued for comment by the International Auditing and Assurance Standards Board of the International Federation of Accountants

Comments from ACCA
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Executive Summary

ACCA welcomes the opportunity to comment on the proposed International Standard on Auditing ISA 620 (Revised and Redrafted) *Using the Work of an Auditor’s Expert* (proposed ISA 620), issued for comment by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants.

We are generally in agreement with the content of proposed ISA 620, which gives a clear focus to the auditor's use of the work of an auditor's expert. We raise some concerns, however, that the material in extant ISA 620 relating to management's experts is not similarly clear when incorporated in proposed ISA 500 *Considering the Relevance and Reliability of Audit Evidence* (proposed ISA 500).

We challenge the objective and scope of proposed ISA 620 because they have the effect of requiring auditors to apply it even where there is no auditor’s expert. We suggest changes that would avoid this as it potentially places a cost burden on all audits which would fall disproportionately on smaller entities.

Terms are defined for use in proposed ISA 620. The Clarity project drafting conventions give such definitions increased significance. We point out that a long-standing definition of ‘expert’ does not actually achieve its intention and we suggest an alternative, or a return to the natural meaning of the word, to resolve the matter.
Matters on which Specific Questions are Asked

In this section of our response we address two issues identified for specific comment in the Explanatory Memorandum forming part of the Exposure Draft.

EXCLUSION OF EXPERTS EMPLOYED OR ENGAGED BY THE ENTITY

We agree with the change in scope of proposed ISA 620 whereby it only deals with using the work of an auditor’s expert. We comment further on the scope of proposed ISA 620 in the section of this response headed General Comments.

In the section of our response headed Adequacy of material on management’s experts we express concerns that proposed ISA 500 may not provide clear requirements and guidance for where there is a management’s expert. If a solution to those problems would be facilitated by combining material on auditor’s experts and management’s experts we would support such a change to the scope of ISA 620.

THE DEFINITION OF ‘EXPERT’

We agree that proposed ISA 620 should apply only in respect of expertise other than in accounting or auditing.

As explained further below, we do not agree, however, with the definitions in paragraph 6 of proposed ISA 620.
Definitions do not achieve their intention
The intention of the definitions is to achieve what the following statement in the Explanatory Memorandum assumes:

‘. . . the definition of “expert” in proposed ISA 620 (Revised and Redrafted) excludes persons or organizations possessing expertise in accounting or auditing . . . ‘

As drafted, the definitions do not achieve this, because persons or organisations with expertise in accounting or auditing may fall within the definition if they also possess expertise in a field other than accounting or auditing. Such circumstances may be uncommon for individuals but are more common for organisations.

Definition of ‘auditor’s expert’ and ‘management’s expert’
In the section of this response dealing with conforming amendments (under the heading Management’s expert) we suggest that the definitions of auditor’s expert and management’s expert should be conformed. Because it is more direct, we suggest using the definition of management’s expert as a model for the definition of auditor’s expert.

The adoption of this approach would also remove a question as to whether the proposed definition\(^1\) is circular because it presupposes that the auditor’s expert will be used, that is, the work will be adequate.

Natural language
Although we recognise that the term ‘expert’ is included in the extant IFAC Glossary of Terms and that the related wording is essentially unchanged in the proposed definition, we nevertheless believe that it is unnatural to restrict the common term, ‘expert’ to a person or organisation, possessing expertise in a field other than accounting or auditing.

The use of plain language, wherever possible, lessens the chance of misunderstandings and aids translation. We have given effect to this in proposing alternative definitions below. We would also support, therefore, the omission of ‘expert’ and ‘expertise’ from the definitions in proposed ISA 620.

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\(^1\) ‘Auditor’s expert – An expert employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.’
Proposed new definitions
For the reasons set out above, we propose the following definitions:

(a) Expert – A person or organisation, possessing expertise.
(b) Expertise – Skills, knowledge and experience in a particular profession or specialised occupation.
(c) Auditor’s expert – An expert whose expertise is in a field other than accounting or auditing who is employed or engaged by the auditor. An expert employed or engaged by the audited entity is not an auditor’s expert.
(d) Auditor’s external expert – An auditor’s expert who is engaged, not employed, by the auditor. An auditor’s external expert is not a member of the engagement team.

The Application and Other Explanatory Material (A&OEM) section could be used to explain that while some experts might have both accounting or auditing and non-accounting or auditing expertise, proposed ISA 620 applies only in respect of expertise other than in accounting or auditing.

Although above we have retained the terms ‘engaged by’ and ‘employed by’, each term could be regarded as encompassing the other and the terms may pose translation problems. Given also that ‘temporary staff’ are mentioned in paragraph A8 we suggest that the definitions section (or the scope section) should do more to clarify the precise application of proposed ISA 620.

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2 Extant ISA 620 uses the term ‘Contracted by’ which may be more precise.
General Comments

DETERMINING WHETHER TO USE THE WORK OF AN AUDITOR’S EXPERT

Proposed ISA 620 includes an objective and requirements relating to determining whether to use the work of an auditor’s expert. We do not agree with the inclusion of these matters. The effect of bringing the choice of whether to use proposed ISA 620 within its requirements is to make the ISA always applicable, such that it requires consideration on every audit, including the vast majority of audits where no auditor’s expert is necessary.

We identified a similar problem in our response to proposed ISA 610 The Auditor’s Consideration of the Internal Audit Function. Our comments of April 2007 included the following (we highlight our comment in respect of proposed ISA 620):

‘... The effect ... is to change a preliminary test of relevance of the ISA to something that can only be decided after complying with paragraph 7 of proposed ISA 610 in all audits.

This is clearly inappropriate as overall, relatively few of the many thousands of audits around the world may be affected by an internal audit function.

Having obtained an understanding of internal control in accordance with ISA 315 (Redrafted) Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment, the auditor is in a position to determine whether the internal audit function is likely to be relevant to the audit of the financial statements and to decide whether proposed ISA 610 is relevant.

We strongly suggest, therefore, that the public interest is best served by limiting the application of proposed ISA 610 as was done for extant ISA 610. The scope, objective and detail of the ISA should be amended to give effect to this.'
There are other ISAs that cover aspects of an audit that arguably also fall to be considered in relation to the ‘core’ ISAs, such as ISA 315. Some, such as ISA 240 The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements are generally applicable, but others are similar to proposed ISA 610 in that they are relevant only to a minority of audits, for example, ISA 620 Using the Work of an Expert. The scope paragraph of such ISAs should state that they are only relevant if the circumstances to which they apply are present.

We are pleased to note that proposed ISA 402 Audit Considerations Relating to Entities Using Service Organizations, issued for comment in December 2007, adopts the approach we recommend above.

We strongly suggest, therefore, that the scope of proposed ISA 620 be restricted so that it contains requirements that apply only where the auditor intends to use the work of an auditor’s expert.

Proposed ISA 620 may then focus on requirements to evaluate whether reliance is actually appropriate. Such requirements would take into account the circumstances of the particular work and the circumstances of the particular expert (such as: capabilities, competence and objectivity).

We suggest that this would be closer to the intention of extant ISA 620 (for example paragraph 8 – which refers to ‘When planning to use the work of an expert’) and would not, therefore, impose significant cost penalties.

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3 The ‘core’ ISAs are: ISA 300 Planning an Audit of Financial Statements, ISA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment, and ISA 330 The Auditor’s Responses to Assessed Risks.

4 Other ISAs that are clearly relevant only to a minority of audits are: ISA 402 Audit Considerations Relating to Entities Using Service Organizations and ISA 510 Initial Engagements—Opening Balances.
Changes made to Enhance the Clarity of Proposed ISA 620

OBJECTIVES

For the reasons set out in our general comments under the heading Determining whether to use the work of an auditor’s expert, we disagree with the objective in paragraph 5(a) because proposed ISA 620 should not deal with determining whether an auditor’s expert might be necessary.

REQUIREMENTS

Paragraph 7
Paragraph 7 contains a conditional requirement that is circular. In effect, it requires a determination of whether it is necessary to use an auditor's expert as a condition precedent before being required to make that determination.

Because we recommend removing the related objective, we also recommend removing this requirement.

If the requirement is retained in proposed ISA 620, it should be rewritten to accord with the objectives and avoid circularity.

Paragraph 9
The first part of the requirement in paragraph 9 is circular and the second part is potentially confusing.

The words ‘the auditor’s expert whose work is to be used’ prejudge the outcome of the requirement to evaluate the capabilities, competence and objectivity of the auditor’s expert. Indeed, because of the proposed definition of the term ‘auditor’s expert’ (discussed in the section of our response headed The definition of expert) there can be no auditor’s expert if their work does not assist the auditor to obtain sufficient appropriate audit evidence.
The construction of the requirement in the second sentence of paragraph 9 is unclear. There is a danger that it will be interpreted as meaning that objectivity is only important for an auditor's external expert, with the implication that for other auditor's experts there need be no such inquiry. While reliance on a firm's policies and procedures may be appropriate, enquiry could reveal specific issues relating to the work in question. On balance we suggest removing the second requirement and using the A&OEM section to explain how the first requirement is to be interpreted for auditor's external experts.

OTHER MATTERS

The Explanatory Memorandum forming part of the Exposure Draft invites comments on the following other matters:

- Special considerations in the audit of small entities
- Special considerations in the audit of public sector entities
- Developing nations
- Translation (see below)

Our response contains comments that are relevant to the above and to undue costs, except we have not made a distinction between developing nations and others, as the audit of small entities may be present in both. We have no separate comments on public sector aspects of the proposed standard.

Translation
In the section of our response headed Proposed new definitions we comment that the terms ‘engaged’ and ‘employed’ may be difficult to translate with precision.
Conforming Amendments

In this section of our response we comment on the conforming amendments to proposed ISA 500.

MANAGEMENT'S EXPERT

The definition of ‘management’s expert’ does not parallel that for ‘auditor’s expert’ but is by reference to expertise possessed: ‘a person or organization employed or engaged by the entity and possessing expertise in a field other than accounting’. This means that auditors have to accommodate two distinctly different definitions of the same type of term.

We suggest that the definition of auditor’s expert and management’s expert should be conformed. Of the two definitions we favour that for management’s expert as it is more direct. In the section of our response headed The definition of expert we propose new wording for the term auditor’s expert.

Definition does not achieve its intention

In that section we draw attention to the fact that the definition of ‘expert’ does not achieve its intention, because persons or organisations with expertise in accounting or auditing may fall within the definition if they also possess expertise in a field other than accounting or auditing. Such circumstances may be uncommon for individuals but more common for organisations. A similar problem attaches to the definition of management’s expert.

In addition, although the definition of management’s expert tries to exclude those having expertise in accounting, paragraph A30d of proposed ISA 500 refers to:

‘The expert’s capabilities and competence with respect to relevant accounting requirements, including experience in assisting with the preparation of financial statements, and the use and knowledge of assumptions and methods consistent with the applicable financial reporting framework.’
This leads us to question whether the definition is right to refer to accounting expertise. As drafted, a management’s expert can possess both accounting expertise and expertise in a field other than accounting.

**Reference to accounting but not auditing**

The definition of management's expert implicitly includes those who have expertise in auditing. It would be worth clarifying how ISAs deal with, for example, internal audit department staff whose work is used by the auditor. Conforming amendments to paragraph 12 of proposed ISA 500 could be linked to material in the A&OEM section to explain the interaction with proposed ISA 610 *The Auditor's Consideration of the Internal Audit Function*.

**Adequacy of Material on Management’s Experts**

The requirements and guidance for management’s experts do not include explicit parallels for those in proposed ISA 620 except in relation to evaluating capabilities, competence and objectivity.

We suggest, therefore, that the A&OEM section should contain a section dealing with how the general requirements should be implemented for management’s experts. This would promote completeness of approach.

**Cost of Requirements**

In the section of our response headed *Determining whether to use the work of an auditor’s expert* we raise concerns about the cost implications of proposed ISA 620 for audits where there is no auditor's expert.

We have similar concerns relating to management’s experts and recommend that specific requirements in proposed ISA 500 should have a condition precedent restricting their operation to circumstances where there is a management’s expert.

The wording proposed for requirement 12(c)\(^5\) is not adequate for this purpose as the words 'if any' can refer to the capabilities, competence and objectivity.

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\(^5\) ‘Evaluating the capabilities, competence and objectivity of a management’s expert, if any’. 