

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

C

Committee: IAASB Consultative Advisory Group

Meeting Location: New York

Meeting Date: April 2-3, 2007

Using the Work of an Expert

Objectives of Agenda Item

1. To inform the IAASB CAG on the status of the project to revise and redraft ISA 620, “Using the Work of an Expert.”
2. To obtain the views of Representatives on key issues discussed by the IAASB at its April 2007 meeting.

September 11-12, 2006 IAASB CAG Comments

Below are extracts from the minutes of the September 11-12, 2006, 2006 IAASB CAG meeting¹ and an indication of how the IAASB Task Force or the IAASB responded to the Representatives’ comments.

Representatives’ comments	IAASB task force or the IAASB response
Mr. Damant was supportive of the proposal to limit the scope of the ISA to using the work of experts engaged by the auditor. It was important that every reference to “work of experts” be explicitly clear as to what sort of expert was referred to – experts engaged by the auditor, experts engaged by the client, or third party experts.	The IAASB agreed to limit the scope of the ISA to using the work of experts employed or engaged by the auditor. Where an “expert” is referred to in the proposed ISA who is not an experts employed or engaged by the auditor, this is made clear in the drafting.
Mr. Sekiguchi emphasized the importance of aligning the definition of “engagement team” in this ISA with that in proposed ISA 600, “The Audit of Group Financial Statements.” Mr. Sylph noted that responses to ED-ISA 600 may affect the proposed definition.	See issue A below.
Ms. Sucher was of the view that an expert can be more or less independent, but he or she is either objective or not objective. The issue is whether obtaining evidence about the expert’s objectivity is	The revised proposed ISA requires the auditor to evaluate the auditor’s expert’s objectivity, noting that “the more ... objective an auditor’s expert is, the more reliable the audit evidence provided by that

¹ The minutes will be approved at the April 2-3, 2007 IAASB CAG meeting.

IAASB CAG PAPER

IAASB CAG Agenda (April 2007)

Agenda Item C

Using the Work of an Expert

Representatives' comments	IAASB task force or the IAASB response
more or less important.	expert is likely to be.” The proposed ISA acknowledges that where an auditor’s expert is subject to particular independence rules, these will be relevant to evaluating the expert’s objectivity. (Refer to paragraphs 8, A10 and A12 of Agenda Item C.2)
Mr. Gutterman was concerned about creating lower objectivity standards for external experts than for internal experts. Mr. Ferlings explained that the auditor will not do less in the case of an external expert, but that his or her procedures to confirm the external expert’s objectivity will be different. In the case of internal experts, the auditor will be able to rely on the policies and procedures implemented in accordance with ISQC 1.	Noted
Ms. Koski-Grafer was of the view that the contract between the auditor and the external expert should clarify what the auditor needs the external expert to be and do, but it should not drive what the auditor has to do in relation to the external expert and his or her work. She asked whether independence could be addressed in the contract. She also stated that she felt that the proposed revised standard could be made easier to understand.	The IAASB agrees that what the auditor needs to do depends on the use to be made of the auditor’s expert’s work, rather than the contact between them. Independence can be addressed in the contract between the auditor and the external expert, and is mentioned in the Appendix to the proposed ISA. (Refer to the Appendix to Agenda Item C.2) The proposed ISA has been reviewed by the IAASB’s plain language expert.
Mr. Asmelash questioned the effectiveness of criteria such as the importance of the expert’s work to the auditor’s evidence and the risk of material misstatement. He was of the view that, if the expert’s work is not important or addressing an assessed risk of material misstatement, the auditor should not engage an expert.	The proposed ISA is attempting to cater for the wide variety of circumstances in which auditors’ experts are engaged. In practice, this may range, e.g., from the heavy involvement of an actuary in the audit of a life insurance company, to a relatively minor questions asked of an external lawyer about the interpretation of a lease contract.
Mr. Gutterman supported the use of principles rather than rules. He was of the view that the auditor’s procedures in relation to the expert and his or her work and the extent of related audit documentation are matters of professional judgment. Mr. Johnson emphasized the importance of documentation. He was of the view that the expert’s documentation	Noted The task force is currently of the view that the nature of the auditor’s expert’s documentation will vary with the circumstances, and in fact it will not be necessary in all cases for the auditor to review the auditor’s expert’s documentation. The task force has not, therefore, included specific requirements in relation

IAASB CAG PAPER

IAASB CAG Agenda (April 2007)

Agenda Item C

Using the Work of an Expert

Representatives' comments	IAASB task force or the IAASB response
should be at the same level as that of an auditor, and should enable the auditor to understand the procedures performed by the expert and the results thereof.	to the expert's documentation.
Mr. Pickeur questioned whether the auditor would be able to evaluate the work of an external expert as prescribed in the ISA (paragraph 17 (d)). He was of the view that the auditor would have to engage another expert to perform those procedures. Mr. Ferlings explained that prior-year experience might assist the auditor in performing those procedures. Ms. Koski-Grafer indicated that those procedures are not new, they are in the existing ISA. Mr. Pickeur noted that additional application material in this regard would be helpful.	The task force has tried to be clearer in the revised requirement that the evaluation is about the adequacy of the evidence <i>for the purposes of the audit</i> , the <i>reasonableness</i> of the expert's findings, and <i>consistency</i> with other audit evidence, rather than requiring the auditor to be an expert, or to engage a second expert to meet the requirement; and is supplemented by quite a few paragraphs of guidance material. A25-A33 offer some detailed guidance on how this may be done. (Refer to paragraphs 11, A25-A33 of Agenda Item C.2)
Ms. Gutterman was of the view that the selection of an expert is very important. He was also of the view that the ISA should cover experts in the field of accounting.	Selection has been given more emphasis, in particular it is now identified specifically in the objectives. See issue D below regarding accounting experts.
Dr. Manabat suggested that the Task Force consider the rationale for using the work of an expert and that the requirements and guidance be based on the outcome of this consideration. The ISA should take account of the fact that the use of an expert is normally not a one-off event – that is, the auditor would have encountered similar incidences in the past. Whether the auditor could rely on the work of an expert would be affected by the reputation and past work of the expert. She noted that she has more questions than answers and that there is a need to revisit what has been done. Mr. Sylph responded that the project has progressed to a stage where it is not possible to revisit the proposals to the extent envisaged by Dr. Manabat. However, the Task Force will address the questions of clarity as communicated by the Representatives.	The rationale for using the work of an expert is outlined in the Introduction to the application material and the section on Determining the Need for an Auditor's Expert, which the task force has borne in mind during its deliberations. The auditor's experience with the field of expertise is mentioned in the guidance material as a relevant considerations. The auditor's personal knowledge of the expert, and discussions with other auditors, with colleagues in the auditor's expert's field, or with others who are familiar with the expert's work is also mentioned. (Refer in particular to paragraphs A1-A9 and A11 of Agenda Item C.2)

IAASB CAG PAPER

IAASB CAG Agenda (April 2007)

Agenda Item C

Using the Work of an Expert

Main Issues to be Discussed at the April IAASB Meeting

A. Definition of Engagement Team

- A1. At previous meetings, the IAASB and the IAASB CAG have discussed proposals being developed by the International Ethics Standards Board for Accountants (IESBA) to revise the definition of “engagement team.” The definition currently in the IFAC *Code of Ethics for Professional Accountants* (the Code) is the same as that in International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,” and ISA 220 “Quality Control for Audits of Historical Financial Information:

All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

The task force has observed that this definition can be interpreted to mean that all internal and external experts, regardless of the magnitude of their involvement with the audit, would need to meet the independence requirements applicable to public accountants under the Code. This may not be practicable in some circumstances, and could result, for example, in the auditor not being able to obtain the assistance needed from experts in certain fields.

- A2. The IESBA has included the following definition in the exposure draft of the Code that it approved in December 2006:

All partners and staff performing the engagement, and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.

- A3. The Explanatory Memorandum accompanying the ED says:

The IESBA understands that the existing definition may have unintended consequences because “any experts contracted by the firm” is broad. In an audit there are potentially many different “experts” who could be contracted by the firm, ranging from an individual who works closely with the team throughout the audit to an individual, usually on behalf of the organization they represent, who has no contact with the engagement team but does provide information about a particular matter (for example, an external lawyer who provides a legal opinion about a particular matter). The IESBA is of the view that it would be inappropriate to treat all such experts as members of the engagement team.

The IESBA is of the view that the definition of engagement team should be broader than partners of the firm and staff employed by the firm who serve on the team. Firms engage individuals (who may themselves be an expert in a particular field, such as a valuations specialist) to perform audit support activities that might otherwise be performed by partners or staff of the firm. Also, firms often contract with outside audit professionals at times of peak activity to supplement staff levels. The IESBA is of the view that such individuals should be considered to be part of the engagement team because they are performing functions that would otherwise be performed by a partner or staff of the firm.

IAASB CAG PAPER

IAASB CAG Agenda (April 2007)

Agenda Item C

Using the Work of an Expert

The individual's legal relationship with the firm should not be the factor that determines whether or not he or she has to comply with independence requirements.

- A4. The task force agrees that “the existing definition may have unintended consequences,” e.g. it appears to *include* contracted experts as part of “personnel” when, in fact, personnel is defined as “partners and staff,” which *excludes* contracted experts. It also agrees with the principle that an “individual’s legal relationship with the firm should not be the factor that determines whether or not he or she has to comply with independence requirements.”
- A5. The task force does, however, have significant difficulties with the proposed definition. For example, assume an audit firm has an in-house lawyer whom it consults on legal questions, but the in-house lawyer happens to be unavailable, e.g. during a busy period, and an auditor in the firm consults a partner in a large law firm on a single, minor legal matter regarding an audit client. Because the service provided by the partner in the large law firm “might otherwise be provided by a partner or staff of the (audit) firm” the partner in the large law firm falls under the definition and is part of the engagement team. While this appears to be particularly problematic from an independence point of view (e.g., is it intended that all partners in the large law firm should be prevented from owning shares in the audit client), that is a matter for IESBA and is not the direct concern of the task force. If, however, this definition were to be adopted by the IAASB for the sake of consistency, then the partner in the large law firm would form part of the engagement team for the purposes of the ISAs, which is not consistent with the task force’s understanding of the IAASB’s intention when drafting ISAs (and ISQC 1).
- A6. ***For further discussion, refer to the Issues Paper at section A “Definition of engagement team” (Agenda Item C.1).***

Matters for Consideration by the IAASB CAG:
The Representatives are asked for their views on how broad they believe the definition of engagement team should be for the purposes of the ISAs and ISQC 1 (in particular, what criteria should be applied when determining whether an external expert should be considered part of the engagement team), and whether a difference between the definition contained in the Code and that in ISAs/ISQC 1 may be appropriate?

B. Sliding Scale

- B1. The IAASB has been concerned with the structure of the proposed ISA as it relates to application of the “sliding scale.” The sliding scale was discussed by the IAASB CAG at its previous meeting in the context of the task force’s earlier proposal to introduce a cut off point beyond which certain procedures would be required to be performed by the auditor.
- B2. The IAASB, however, decided that many of the procedures identified in the proposed ISA at that time should actually be performed in nearly all cases where an expert is used; although the emphasis to be given to different procedures and the extent to which they are performed will vary greatly depending on the circumstances, e.g., whether the expert is internal or

IAASB CAG PAPER

IAASB CAG Agenda (April 2007)

Agenda Item C

Using the Work of an Expert

external and the materiality of the matter to which the expert's work relates. This is what has become known as the sliding scale.

- B3. Incorporation of the sliding scale allows the proposed ISA to be applied in the wide variety of circumstances for which auditors' experts are used in practice, e.g., from the heavy involvement of an actuary employed by the audit firm in the audit of a life insurance company, to a relatively minor question asked of an external lawyer about the interpretation of a lease contract.
- B4. The task force has dealt with the sliding scale in the application material, e.g. **paragraphs A4, A10, A22 and A25 of Agenda Item C.2)**
- B3. **For further discussion, refer to the Issues Paper at section B "Sliding scale" (Agenda Item C.1).**

Matters for Consideration by the IAASB CAG:
The Representatives are asked for their views on whether the proposed ISA adequately deals with the "sliding scale?"

C. Using the Work of Management's Expert

- C1. The IAASB is of the view that the proposed ISA should not deal with experts employed or engaged by management, and asked the task force to consider whether conforming amendments to other ISAs will be necessary to address this matter, particularly the potential for over-reliance on the work of outside experts engaged by management. The task force has sought to address this matter in **footnote 2, and in the conforming amendments to ISA 315 (Redrafted) and ISA 330 (Redrafted) at the end of the proposed ISA (Agenda Item C.2).**
- C2. **For further discussion, refer to the Issues Paper at section C "Using the work of management's expert" (Agenda Item C.1).**

Matters for Consideration by the IAASB CAG:
The Representatives are asked for their views on whether the proposed conforming amendments to ISA 315 (Redrafted) and ISA 330 (Redrafted) regarding experts employed or engaged by management are adequate to deal with this area of practice?

D. Accounting and Auditing experts

- D1. The definition of "auditor's expert" in the proposed ISA excludes accounting and auditing experts.
- D2. In reconsidering this matter now, the task force agrees that it is very difficult to clearly define the level of expertise needed by "generalist" auditors versus those with "specialized" knowledge of particular accounting and auditing matters, and to include accounting and auditing experts in the ambit of the ISA would not be appropriate because it would treat all partners and staff on the audit as "experts." However, the task force is conscious of the fact that, particularly in larger, more complex audits, there is an increasing need to use the work

IAASB CAG PAPER

IAASB CAG Agenda (April 2007)

Agenda Item C

Using the Work of an Expert

of accounting and auditing experts, and auditors may look to this ISA for assistance in such cases.

D3. The task force has therefore proposed that a footnote be added noting that although the ISA does not directly deal with this matter, parts of the ISA may nonetheless be of assistance when an accounting or auditing expert is used (***Refer to footnote 1 of Agenda Item C.1***).

D4. ***For further discussion, refer to the Issues Paper at section D “Accounting and auditing experts” (Agenda Item C.1).***

Matters for Consideration by the IAASB CAG:
The Representatives are asked for their views on whether the ISA adequately deals with accounting and auditing experts?

Material Presented – IAASB CAG REFERENCE PAPERS ONLY

Agenda Item C.1 Issues Paper (Appendix to April 2007 IAASB Agenda Item 5)

Agenda Item C.2 Proposed ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert as Audit Evidence” (April 2007 IAASB Agenda Item 5-A)

The remainder of the July 2006 IAASB meeting material is available from
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0090&ViewCat=0745>.