

# IAASB CAG PAPER



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

## Agenda Item

# B.3

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** London

**Meeting Date:** September 20-21, 2007

## Report Back—Using the Work of an Expert

### Objectives of Agenda Item

To provide a brief report back on the April 2-3, 2007 comments received from Representatives on [Proposed] ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert.”

### Project Status

A revised version of the draft proposed ISA that the CAG considered at its April meeting was discussed by the IAASB at its July meeting, and a further draft, which includes conforming amendments to [Proposed] ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence,” will be considered at the September IAASB meeting for approval to issue as an exposure draft. The September 2007 IAASB meeting material is available from <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0092&ViewCat=0820>.

### April 2-3, 2007 CAG Comments

Below are extracts from the minutes of the April 2-3, 2007 CAG meeting and an indication of how the IAASB Task Force or the IAASB responded to the Representatives’ comments.

Representatives’ comments	IAASB Task Force / IAASB response
<i>Definition of Engagement Team</i>	
Ms. Sucher was concerned about the unintended consequences of the definition of engagement team proposed by the International Ethics Standards Board for Accountants (IESBA), as explained by Mr. Ferlings. She noted that it is important that the IFAC <i>Code of Ethics for Professional Accountants</i> and the IAASB standards contain the same definition. She also noted that proposed ISA 600 (Revised and Redrafted), “Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)” contains yet a different definition for engagement team.	The IESBA has started to consider respondents’ comments on the definition of engagement team proposed in the December 2006 exposure draft of a revised Code of Ethics. It has decided, in principle, that the definition, as exposed, should be amended to exclude auditor’s external experts, which is consistent with the IAASB’s view. Following further liaison between the IAASB Experts Task Force and the IESBA Independence Task Force, the following definition, was included in the July 2007 exposure draft of the IAASB’s quality control standards (ISQC 1 and ISA 220): “Partners and staff performing the

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<p>Mr. Rabine supported the same definition of engagement team for both the Code and the IAASB standards. Referring to the Explanatory Memorandum accompanying the IESBA Exposure Draft, he noted that the IESBA and the Experts Task Force are aiming to achieve the same outcome, but that this is not clear. Mr. Ferlings explained that the Explanatory Memorandum will fall away when the revised Code is issued. It is therefore important that the proposed definition is capable of consistent interpretation without the Explanatory Memorandum.</p> <p>Mr. Morris noted that the IAASB CAG Working Group was of the view that the definition of engagement team should include both internal and external experts. However, from a personal point of view, he was also concerned about the unintended consequences of including external experts in the definition.</p> <p>Ms. Todd McEnally noted the importance of a longer term solution. She was of the view that, as transactions become more complex, increased audit risk will require increased use of experts. She believed that the longer term solution is education and training of auditors. Mr. Ferlings were of the view that, even if adequately educated and trained, auditors may still face unique situations in which experts will be needed.</p>	<p>engagement and any individuals engaged by the firm who perform audit procedures. This does not include auditor's external experts."</p> <p>In agreeing, in principle, that the exposed definition should be amended, the IESBA noted its concern about whether ISA 620 is sufficiently rigorous in its approach to the auditor's evaluation of the objectivity of an auditor's external expert.</p> <p>The draft ISA being considered for approval at the September meeting includes an explicit requirement to evaluate the capabilities, competence and objectivity of an auditor's expert, including, in the case of an auditor's external expert "inquiry regarding interests and relationships that may create a threat to that expert's objectivity."</p>
<i>Sliding Scale</i>	
<p>Mr. Morris noted that the IAASB CAG Working Group was in agreement with the Experts Task Force's proposal in this regard.</p>	<p>The sliding scale has been retained, but repositioned to cover all requirements other than the auditor's determination of whether an auditor's expert is needed.</p> <p>The draft ISA being considered for approval at the September meeting includes a requirement to evaluate the consistency of the expert's findings with other audit evidence;</p>
<p>Ms. Sucher suggested that the auditor also consider how the audit evidence provided by the expert compares with other audit evidence obtained by the auditor. Although mentioned in the proposed ISA, she questioned the position of the text.</p>	

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<i>Using the Work of Management's Expert</i>	
Mr. Roussey was concerned that the cross reference to ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment" and ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks" is in a footnote. If management engages an expert, the auditor should consider whether also to engage an expert. Mr. Damant agreed, but emphasized that matters relating to management's expert and the auditor's expert should be dealt with separately. Mr. Ferlings noted that the matter raised by Mr. Roussey is addressed in ISA 315 (Redrafted), but agreed that the Experts Task Force will consider whether it needs further clarification.	The proposed revisions to ISAs 315 and 330 have not been proceeded with. Rather, because of the relationship between management's experts and the reliability of audit evidence, the draft ISA being considered for approval at the September meeting includes proposed conforming amendments to ISA 500 to address the auditor's consideration of management experts.
Mr. Morris was concerned that the proposed ISA may be read as implying that there is a weakness in internal control or a fraud risk factor when management decides to engage an expert. In fact, management may decide that it is more efficient to engage an expert.	Any such implication has been removed in the draft ISA being considered for approval at the September meeting.
Mr. Peyret emphasized the importance of management not abdicating its responsibility to an expert it engages.	The ISAs, in particular ISA 200, make it clear that management is responsible for preparation and presentation of the financial statements.
<i>Accounting and Auditing Experts</i>	
Mr. Johnson was of the view that footnote 1 (explaining that, although the proposed ISA does not deal with experts in accounting or auditing, parts of it may nonetheless be helpful when using the work of such an expert) should be in the Introduction section. Mr. Damant was of a similar view. He also noted that the word "helpful" is weak. Mr. Kellas was of the view that the word "helpful" is appropriate because accounting and auditing experts are excluded from the scope of the proposed ISA and therefore not	The draft ISA being considered for approval at the September meeting now includes a reference to consultation with specialists in a particular area of accounting or auditing in the text, rather than in a footnote. It is referenced to ISA 220 on quality control.

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<p>subject to the requirements.</p> <p>Ms. Rand asked whether the reference to accounting and auditing experts is in the context of consultation within the firm about accounting or audit related matters. In the United States, such consultations are dealt with in the quality control standards. Mr. Ferlings explained that the proposed ISA applies in the case of external experts, and that the reference should be read in that context.</p>	
<p>Mr. Sekiguchi suggested that the proposed ISA explain why it does not apply to accounting and auditing experts.</p>	<p>An explanation will be included in the explanatory memorandum accompanying the exposure draft. Respondents will be asked for comment on the appropriateness of excluding accounting and auditing experts.</p>
<i>Other</i>	
<p>Mr. Pickeur was concerned that paragraph 10 of the proposed ISA (which requires the auditor to provide direction to the auditor's expert and to communicate with the auditor's expert) does not provide for two-way communication. Mr. Ferlings explained that the words "determining ... the nature, timing and extent of communication <i>between</i> them" imply two-way communication. Mr. Pickeur also asked why an engagement letter and expert's report are not required. Mr. Ferlings explained that the Experts Task Force agreed not to propose documentation requirements, as documentation is affected by the "sliding scale," i.e. it will vary depending on the circumstances.</p>	<p>The draft ISA being considered for approval at the September meeting requires the auditor to agree with the expert the nature, timing and extent of communication between the auditor and the expert.</p> <p>Because the ISA addresses such a broad range of interactions between auditors and experts, neither an engagement letter nor an expert's report will be required in all cases, e.g., where the expert is a member of the engagement team an engagement letter would not be required.</p>
<p>Referring to paragraph 11 of the proposed ISA (which requires the auditor to evaluate the adequacy of the evidence provided by the auditor's expert), Mr. Sekiguchi asked why the auditor is not required also to understand the audit evidence. Mr. Ferlings explained that understanding is a subset of evaluation. Mr. Sekiguchi also asked why the requirement refers</p>	<p>The draft ISA being considered for approval at the September meeting recognizes that "an auditor does not ordinarily have the expertise of a person trained and experienced in another profession or specialized occupation." It does, however, require the auditor to obtain a sufficient understanding of the field of expertise of an auditor's expert to enable the auditor</p>

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to “adequacy of the evidence” and not “appropriateness of the evidence.” Mr. Ferlings explained that “adequacy” is used because the evidence provided by the expert only forms part of what may be appropriate evidence.	to evaluate the adequacy of the expert’s work for the purposes of the audit. This acknowledges that the auditor’s understanding of the evidence may be less than the expert’s understanding, but ensures it is sufficient for the purposes of the audit. “Adequacy” as used in this requirement encompasses both quantity and quality considerations, and is considered the appropriate word in this context.
Referring to paragraph A27 (which refers to specific procedures to evaluate evidence provided by the expert), Mr. Roussey was concerned that the words “reviewing the auditor’s expert’s working papers” may imply that the auditor does not have to review the expert’s working papers, while the auditor may not be able to evaluate the adequacy of the evidence provided by the expert if he or she does not review the expert’s working papers. Mr. Ferlings explained that the matter is dealt with in the preceding paragraph (which lists factors that may be relevant when considering the findings of the auditor’s expert), but agreed that the Experts Task Force will consider whether further clarification is necessary.	It may not be necessary or appropriate to review an expert’s working papers in all cases, e.g. if the expert is a lawyer, all the relevant material to support the expert’s opinion (clauses from relevant statutes, references to case law, reasoning etc) is likely to be included in the expert’s report.