



International Federation of Accountants

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Agenda Item

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Committee: IAASB Consultative Advisory Group

Meeting Location: Toronto

Meeting Date: September 5-6, 2008

ED-ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert”

Objectives of Agenda Item

To review a summary of significant comments on ED-ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert,” and subsequent discussion by the IAASB.

The IAASB considered the summary of significant comments at its June 2008 meeting. **Approval of the final ISA is planned for the September 2008 IAASB meeting.**

IAASB Task Force

The IAASB Task Force members are

- Josef Ferlings, Chair (IAASB member – Germany; supported by Wolfgang Böhm, IdW)
- Cláudio Castello Branco (nominated by INTOSAI – Brazil)
- Craig Crawford (IAASB member – USA; supported by Hiram Hasty, AICPA)
- Dale Gislason (nominated by IFAC’s SMP Committee – Canada)
- Greg Shields (IAASB Technical Adviser – Canada)

The Task Force maintains active liaison with Sam Gutterman (International Actuarial Association), and Jan Munro (IESBA – International Ethics Standards Board for Accountants).

Background

ED-ISA 620 was issued in October 2007, with a response date of February 15, 2008. At its June 2008 meeting, the IAASB discussed significant issues raised by the forty-six respondents to the ED, and provided direction to the Task Force. The Task Force has since considered the IAASB’s comments via conference call.

Significant Comments

Respondents were generally supportive of the revised and redrafted ISA. The most significant issues raised, and the IAASB deliberations thereon are summarized below.

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A. DEFINITIONS

1. The definitions in ISA 620 (Revised and Redrafted), and related definitions in the IFAC Code,¹ proposed ISQC 1 (Redrafted),² and proposed ISA 220 (Redrafted),³ determine to whom those documents apply. The vast majority of respondents supported the concepts underlying the definitions, although some suggestions were made for clarification in wording, presentation etc., a number of which have been adopted.
2. Certain of the definitions relevant to this ISA have been subject to considerable debate as ED-ISA 620 was developed. Of the three significant issues noted in the Explanatory Memorandum accompanying the ED-ISA 620, two related to definitions. One reason these definitions have been contentious is that they contain distinctions that may require the exercise of considerable professional judgment to ensure they are applied appropriately in particular circumstances of each audit. These definitions require the auditor to determine whether:
 - An auditor's expert's expertise is in accounting/auditing, or another field. This distinction is embedded in the definition of "auditor's expert."
 - An auditor's expert is a partner or staff of the firm, or engaged by the firm. This distinction is embedded in the definition of "engagement team," and flows through to the definitions of "auditor's internal expert" and "auditor's external expert."
 - An auditor's expert performs audit procedures on the engagement, or is consulted only. This distinction is embedded in the definition of "engagement team."
3. These decisions do not involve "bright line" distinctions, yet the implications of applying these definitions can have a significant effect in practice because they determine which requirements will apply to the work of an auditor's expert.

Expertise in Accounting and Auditing

4. The definition of auditor's expert excludes experts in accounting or auditing. The vast majority of respondents who commented on this aspect of ED-ISA 620 offered support, some of whom made suggestions for clarification in the ISA. A few respondents were opposed to any distinction between experts based on their accounting or auditing expertise, and a few suggested excluding only internal accounting or auditing experts.
5. The IAASB confirmed its view that the ISA 620 (Revised and Redrafted) must distinguish expertise in accounting or auditing from other expertise. If accounting and auditing experts were not specifically excluded from the definition of auditor's expert, then all the auditor's professional staff performing audit procedures on an engagement (i.e., the entire

¹ The International Federation of Accountants' *Code of Ethics for Professional Accountants*.

² Proposed ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

³ Proposed ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements."

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engagement team) would need to be considered experts. This would be contrary to the intent of ISA 620 (Revised and Redrafted), which is to introduce special provisions for work used by the auditor that is performed by a person who has expertise in a field that is different from that of the auditor. Auditors can always be expected to be experts in accounting and auditing.

6. A number of respondents argued that experts in specialized areas of accounting or auditing should be considered experts for the purpose of ISA 620 (Revised and Redrafted), as some or all of the requirements and guidance in the ISA should apply to them.
7. It is recognized that the work of experts in specialized areas of accounting or auditing will need to be used on many audits. However, it is not practicable to attempt to draw a clear distinction between expertise in a *specialized area* of accounting or auditing, and the “ordinary” expertise that should be possessed by the engagement team. For example, it is common for areas of specialization to become absorbed into the mainstream of accounting or auditing expertise, sometimes within a relatively short time (e.g., all expertise with respect to Computer Assisted Auditing Techniques was, at one time, considered a specialist area, but is not now).
8. Nonetheless, when the work of an expert in a specialized area of accounting or auditing is used, considerations similar to those in ISA 620 (Revised and Redrafted) will be applicable to a greater or lesser extent depending on the circumstances. The Task Force is therefore recommending to the IAASB that a summary of the relevant requirements of ISA 620 (Revised and Redrafted) be included in the application material of ISA 220 (Redrafted) .

Internal and External Experts

9. The definition of “engagement team” does not appear in ISA 620 (Revised and Redrafted). It is in proposed ISQC 1 (Redrafted), ISA 200 (Revised and Redrafted),⁴ and the IFAC Code. The most contentious element of that definition has been whether it should include external experts. The ISA 620 Task Force has liaised with the IESBA Independence Task Force (ITF) and staff regarding the definition.
10. The Explanatory Memorandum to ED-ISA 620 noted the background to the definition of engagement team, and stated that:

The IAASB believes it is appropriate to exclude an auditor’s external expert from the definition of “engagement team” in [proposed] ISA 220 (Redrafted) and [proposed] ISQC 1 (Redrafted) because it would be impractical to expect auditor’s external experts to be subject to all the quality control policies and procedures the firm applies with respect to its partners and staff. Similarly, the IAASB believes it would be impractical to expect auditor’s external experts to be subject to all the independence requirements of the [proposed] Code, which is

⁴ ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

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written for application to accountants and accounting firms. If auditor's external experts were included in the definition, the IAASB considers that this would create a significant barrier to the necessary use of experts in appropriate cases.

11. The majority of respondents who commented on this issue offered support for the exclusion, which has been retained.

“Performs Audit Procedures on the Engagement”

12. A small number of respondents made comments that may indicate a potential difficulty in determining whether some individuals satisfy the following criteria in the definition of engagement team: “perform audit procedures on the engagement,” or whether they are merely being consulted.
13. The IAASB is of the view that determining whether an expert “performs audit procedures on the engagement” or is simply “consulted” will, in some cases, depend upon judgment regarding, for example:
 - *The nature of the work performed by the expert:* the more audit-like the work is, the more likely it is that the individual is performing audit work rather than being consulted. However, there often will be no “bright line” distinctions since work done by the auditor's expert on assumptions, methodology and data often will be part of that expert's expertise even though such procedures may be similar to (or even the same as) those that would be performed by the auditor if he/she possessed the required expertise.
 - *The extent of the work performed by the individual:* the less extensive the work is, the more likely it is that the individual is being consulted rather than performing audit work.
 - *The nature and extent of the involvement of (other) members of the engagement team in the expert's work.*
14. The notion of consultation has been included in ISQC 1 and ISA 220 since they were issued in 2004, and the distinction between performing audit procedures and consultation has been embedded in the definitions “engagement team” and “assurance team” since the IFAC Code was revised in 2005. While in some cases consideration of this concept will require the exercise of professional judgment rather than being a “bright line,” respondents have not indicated that this is a major concern, nor one that has caused any implementation difficulties in practice. Also, no suggestions have been made as to a replacement concept. The IAASB is satisfied that this distinction remains appropriate.

Matter for Consideration by the IAASB CAG:

- Q1. Do the Representatives agree that the following distinctions in the definitions are appropriate in determining how the Code, proposed ISQC 1 (Redrafted), proposed ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted) apply in relation to auditor's experts – whether the auditor's expert:
 - has expertise is in accounting/auditing, or another field;
 - is internal or external; and

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- performs audit procedures on the engagement, or is consulted only.

See paragraph 6 of proposed ISA 620 (Revised and Redrafted) – Agenda Item 13-D of the September IAASB meeting material.

B. MANAGEMENT’S EXPERTS

15. The Explanatory Memorandum specially sought respondents’ views on the following:

Extant ISA 620 deals with both an auditor’s expert (i.e., an expert employed or engaged by the auditor) and a management’s expert (i.e., an expert employed or engaged by the entity). However, the auditor’s use of work performed by these two types of expert fundamentally differs and, although some of the related audit considerations are similar, the IAASB considers that it is necessary to draw a clearer distinction between the two. [Proposed] ISA 620 (Revised and Redrafted) now deals exclusively with considerations relevant to using the work of an auditor’s expert. Material dealing with the work of a management’s expert is presented in the conforming amendments to [proposed] ISA 500 (Redrafted).

16. Extant ISA 620 deals with both auditor’s experts and management’s experts. In developing the exposure draft, the IAASB decided to move consideration of management’s experts to proposed ISA 500 (Redrafted). The vast majority of respondents supported this, albeit with some caveats in a large number of cases. In particular, a quarter of respondents who commented on this matter thought that more guidance, and in some cases requirements, were needed regarding various aspects of using the work of a management’s expert. The IAASB agreed to enhance ISA 500 (Redrafted), but is conscious of the need not to “swamp” ISA 500 (Redrafted) with considerations that relate to management’s experts.
17. On the basis of the comments received and a review of extant ISA 620, the IAASB concluded that it would be appropriate to include the following additional requirements and guidance in ISA 500 (Redrafted) regarding the use of management’s experts:
- (a) Requirements, with accompanying guidance:
 - (i) The equivalent of ISA 620 (Revised and Redrafted) paragraph 10, re: obtaining an understanding of the work of a management’s expert; and
 - (ii) The equivalent of ISA 620 (Revised and Redrafted) paragraph 12, re: evaluating the adequacy of a management’s expert’s findings.
 - (b) Guidance on:
 - (i) Evaluating the agreement between the entity and the expert (a new requirement on this is not necessary as it falls under the requirement to evaluate the adequacy of the management’s expert’s findings); and
 - (ii) Factors affecting the nature, timing and extent of audit procedures with respect to a management’s expert.

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Matter for Consideration by the IAASB CAG:

- Q2. Do the Representatives agree with the need for additional requirements and guidance on management's experts in relation to: (a) obtaining an understanding of the work of a management's expert, and (b) evaluating the adequacy of that work?

See the conforming amendments to proposed ISA 500 in proposed ISA 620 (Revised and Redrafted) – Agenda Item 13-D of the September IAASB meeting material.

C. DETERMINING THE NEED FOR AN EXPERT

18. One respondent noted:

We do not believe that the guidance as to when an expert is needed is worded strongly enough to require the use of experts in all cases where, as regulators, we would expect experts to be involved. We would agree in many cases that judgment is required when considering whether an expert is needed, but we believe that there are cases where the auditor would need to rebut a presumption that an expert is required. ...

Insurance companies and complex financial instruments were noted as examples. It was also suggested that "An important consideration for the auditor is that when management needs an expert then it is more than likely that the auditor will as well, and the wording could be strengthened to this effect."

19. The suggestion of a rebuttable presumption for some cases was considered by the IAASB; however, there seems no reasonable way to identify those situations in which a rebuttable presumption would be appropriate from those in which it would not. This is because whether or not an auditor's expert is needed depends on a large number of variables and is, therefore, very much dependant on the circumstances of the engagement. Some of the variables noted in the ISA are:
- The materiality of the matter, and the risks of material misstatement.
 - The nature and complexity of the matter.
 - The expected nature of procedures to respond to identified risks.
 - The availability of alternative sources of audit evidence.
20. The IAASB considered the specific suggestion of strengthening paragraph 7 when management needs an expert, and considered in particular whether a rebuttable presumption should be imposed whenever this is the case, but did not believe this to be appropriate. Paragraph 7 of the revised ISA states: "If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert."
21. Whether management has used an expert may indicate a need for the auditor to use the work of an expert (as acknowledged in the first bullet of paragraph A10, which states "Considerations when deciding whether to use an auditor's expert may include whether

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management has used an expert in preparing the financial statements.”), however, it would not be reasonable to assume that this will nearly always be the case; and certainly the reverse is not true, i.e., where management have not used an expert, this of itself is no guide as to whether the auditor should or should not use an expert – the issue is the auditor’s expertise in the relevant field, not management’s expertise. As noted in the draft, when management has used an expert, the auditor’s decision on whether to use an auditor’s expert may be influenced by a large number of factors. It would therefore not be reasonable to impose a rebuttable presumption simply because management uses an expert. *See paragraph A11 of proposed ISA 620 (Revised and Redrafted) – Agenda Item 13-D of the September IAASB meeting material.*

Matter for Consideration by the IAASB CAG:

- Q3. Do the Representatives agree that paragraph 7 is suitably worded, and in particular that a rebuttable presumption should not be introduced, and that no specific requirement should be introduced for cases where management has used an expert?

D. AGREEMENT WITH THE EXPERT

22. Paragraph 11 requires the auditor to agree with the auditor’s expert on certain matters, and requires that agreement to be “in writing when appropriate.” *See paragraph 11 of proposed ISA 620 (Revised and Redrafted) – Agenda Item 13-D of the September IAASB meeting material.*
23. The major objections to this paragraph from respondents relate to whether, and if so to what extent, the agreement should be required to be in writing. These objections were of two quite different types:
- (a) 6 respondents thought that paragraph 11 should be tightened to require the agreement to be in writing in all or certain circumstances, e.g., that “in writing when appropriate” should be changed to be “in writing in X or Y circumstances.” For example, one respondent noted that written agreements “become tools providing certainty to all parties” and recommended mirroring parts of proposed ISA 210 (Redrafted)⁵ through a requirement for “written contractual agreements between the auditor and the [external] expert.”
 - (b) 6 respondents thought that because they are conditional, the words “in writing when appropriate” should be removed from the requirements section, and whether or not an agreement is to be in writing should be dealt with in the application material only. For example, one respondent suggested following mirroring parts of ISA 600 (Revised and Redrafted)⁶ as the appropriate text upon which to build:

⁵ Proposed ISA 210 (Redrafted), “Agreeing the Terms Of Audit Engagements.”

⁶ ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).”

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24. While parallel drafting is appropriate for parallel situations, the situation with which paragraph 11 deals (the auditor's agreement with an auditor's expert) is not directly parallel with either ISA 210 (Redrafted) or ISA 600 (Revised and Redrafted).
- Proposed ISA 210 (Redrafted) differs significantly in that the service being agreed to is an audit, which is: (a) a service in which the engaged party (the auditor) reports publicly; and (b) a highly regulated and consistent service. This differs from engaging an expert, where: (a) the engaged party (the expert) reports only to the engaging party (the auditor); and (b) the possible range of expert services, and circumstances in which they are used, varies widely.
 - ISA 600 (Revised and Redrafted) differs significantly in that the two parties making the agreement share the same expertise, i.e., they are both auditors.
25. There was no general consensus amongst respondents about whether a change was needed and if so, what that change should be. Nor was the IAASB persuaded by the arguments for change presented by respondents, which had been previously debated by the IAASB. The IAASB therefore remains of the view that this aspect of the requirement in paragraph 11, as it appeared in the exposure draft, remains appropriate.

Matter for Consideration by the IAASB CAG:

- Q4. Do the Representatives agree that it is correct for paragraph 11 to continue to require the agreement between the auditor and the auditor's expert to be "in writing when appropriate."

F. DOCUMENTATION

26. Four respondents called for additional requirement(s) regarding documentation. For example, one oversight body included the following list of items from the Canadian Handbook and suggested, based on the deficiencies they perceived in this area in practice, that most should be included in ISA 620 (Revised and Redrafted):
- (a) the need to use an expert, and reasons for selecting the particular expert;
 - (b) the expert's role in the engagement, and the reason for choosing that approach;
 - (c) important communications with the expert, especially concerning the nature of the relationship between the practitioner and the expert if such communications are not in writing;
 - (d) information concerning the expert's expertise (including qualifications), competence and integrity;
 - (e) information concerning the expert's objectivity;
 - (f) a description of the expert's work;

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- (g) notes concerning the practitioner's work on the expert's work and findings, including any review the practitioner has done of the expert's working papers;
- (h) the expert's report and other findings, or relevant parts thereof; and
- (i) the practitioner's assessment of the relevance of the expert's report or other findings to the objective of the engagement, and to the practitioner's conclusion on the subject matter.

27. The IAASB considered that the above items would already be required to be documented if they are significant under the general requirements of ISA 230 (Redrafted).⁷ However, given the contention noted above about whether the auditor's agreement with the auditor's expert should always be in writing or not, the IAASB asked the task force to consider whether a requirement should be included to document that agreement when it is not in writing. The task force has included a requirement to this effect at paragraph 16 which states:

16. Where the agreement required by paragraph 11 of this ISA is: (Ref: Para. A45)

(a) In writing, the auditor shall retain or refer to a copy of the written agreement as part of the audit documentation; or (Ref: Para. A42)

(b) Not in writing, the auditor shall document the matters agreed to. (Ref: Para. A43-A44)

28. The IAASB also asked the task force to consider whether some of the items noted above should be include in the application material of ISA 620 (Revised and Redrafted). The task force has included what it considers to be the main matters in the application material at paragraph A44.

See the paragraphs 16 and A44 of proposed ISA 620 (Revised and Redrafted) – Agenda Item 13-D of the September IAASB meeting material.

Matter for Consideration by the IAASB CAG:

Q5. Do the Representatives agree that no specific documentation requirements be added to the ISA?

⁷ ISA 230 (Redrafted), "Audit Documentation."

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Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 13-A of the June 2008 IAASB Meeting – Summary of Significant Comments and Task Force Recommendations—Exposure Draft of Proposed ISA 620 (Revised and Redrafted) <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3990>

Agenda Item 13-D of the September 2008 IAASB Meeting – Proposed ISA 620 (Revised and Redrafted) (Marked from Exposure Draft) <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4185>

Action Requested

The IAASB CAG is asked to review and comment on the significant comments on ED-ISA 620, and the IAASB responses thereto, as highlighted in this paper.