

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

C.3

Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9 – 10, 2009

Report Back—Using the Work of an Auditor’s Expert – ISA 620 (Revised and Redrafted)

Objective of Agenda Item

1. The objective of this Agenda Item is to provide a brief report back on proposals of Representatives on proposed ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert,” discussed at the September 4-5, 2008 CAG meeting.

The IAASB approved the proposed ISA as a final standard at its September 15-19, 2008 meeting.

September 4 - 5, 2008 CAG Proposals

2. Below is an extract from the draft minutes of the September 2008 CAG meeting¹ and an indication of how the IAASB Task Force or the IAASB responded to the Representatives’ comments.

Representatives’ Comments	Task Force/IAASB Response
DEFINITION OF AUDITOR’S EXPERT	
Mr. Ratnayake supported the position of the Task Force. He was of the view that it would not be appropriate to treat an expert in accounting or auditing as an expert under proposed ISA 620 (Revised and Redrafted). He was also of the view that if the engagement partner believes there is need for specialized accounting or auditing expertise, then such expertise needs to be part of the engagement team.	Support noted. Point taken into account. The IAASB agreed that in this regard the treatment of specialists in accounting or auditing should be consistent with the treatment of internal experts in other fields, i.e., they should be included in the engagement if they perform audit procedures on the engagement. If they do not perform audit procedures

¹ The minutes will be approved at the March 2009 IAASB CAG meeting.

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	<p>the requirements of ISA 220 (Redrafted) with respect to consultation apply.</p> <p><i>See paragraph A10 of ISA 220 (Redrafted) in updated Agenda Item 12 (December IAASB meeting), for the text of this paragraph as approved by the IAASB.</i></p>
<p>Mr. Gutterman noted that there are certain specializations in accounting and auditing that are not ordinarily thought of as being included within the general competencies expected of the engagement team. He was therefore of the view that it would be helpful if the ISA addressed how the work of experts in specialized areas of accounting or auditing are addressed in an audit.</p>	<p>Point accepted.</p> <p>Guidance on this matter was added to ISA 220 (Redrafted), and specifically referenced in ISA 620 (Revised and Redrafted).</p> <p><i>See paragraph A20 of ISA 220 (Redrafted) as issued by the IAASB in December 2008, and paragraph 2(a) of ISA 620 (Revised and Redrafted) in updated Agenda Item 12 (December IAASB meeting) for the text of this paragraph as approved by the IAASB.</i></p>
<p>Mr. Roussey noted that smaller practices are likely to engage an external accounting or auditing expert for assistance, for example in accounting for complex derivative financial instruments. He was therefore of the view that many of the requirements of ISA 620 (Revised and Redrafted), for example determining whether the expert has appropriate credentials, should apply equally to accounting and auditing experts. Mr. Koktvedgaard and Ms. De Beer also found it unclear as to why the ISA excludes experts in accounting and auditing and why they should be treated differently. Mr. Ferlings explained that proposed ISQC 1 (Redrafted)² and ISA 220 (Redrafted)³ establish obligations on the engagement partner to determine whether the engagement team has the necessary competencies to perform the audit. Where an external accounting or auditing expert is engaged for this purpose and</p>	<p>Points taken into account.</p> <p>In addition to the comments made by Mr. Ferlings during the CAG meeting, which were supported by the IAASB, the IAASB considered that it will often not be practicable to attempt to distinguish between expertise in a specialized area of accounting or auditing, and the “ordinary” expertise that should be possessed by the engagement team, and therefore it would not be practicable for people with such expertise to be considered experts for the purpose of ISA 620 (Revised and Redrafted). 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 (for example, all expertise with respect to computer assisted audit techniques was, at one time, considered a specialized area, but is not now).</p>

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

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

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<p>performs auditing procedures on the engagement, the expert is treated as a member of the engagement team subject to the provisions of ISQC 1 (Redrafted) and ISA 220 (Redrafted). Nothing, however, precludes the auditor from applying relevant requirements in ISA 620 (Revised and Redrafted) as part of the auditor’s considerations when engaging an external accounting or auditing expert. In response, Mr. Roussey questioned the extent to which external accounting or auditing experts are willing to be treated as part of the engagement team in light of possible liability issues and independence requirements.</p>	<p>Point taken into account.</p> <p>The IAASB considered that where a person other than an external expert performs audit procedures, that person needs to be a member of the engagement team for quality control and independence reasons. A common example of such a person is “contract senior” auditor who works on engagements during busy months but is not an employee.</p>
<p>Ms. De Beer reported that the stock exchange in South Africa now requires auditing firms to use an International Financial Reporting Standards (IFRS) advisor. Most smaller practices, however, do not have an in-house IFRS advisor, and so are required to engage an external IFRS advisor. She asked whether such an advisor would be required to be treated as a member of the engagement team. Mr. Ferlings explained that if the IFRS advisor is providing advice but not performing audit procedures, the advisor would not be part of the engagement team. Mr. Kellas noted, however, that such an advisor would also not be covered by ISA 620 (Revised and Redrafted) since the advisor is an expert in accounting.</p>	<p>See next point.</p>
<p>Ms. De Beer nevertheless was of the view that the ISA needs to be more flexible as smaller practices will inevitably often need to contract out specialized accounting skills. Further, she was of the view that using an external IFRS expert on a specific issue is no different from using a geologist as an expert. Mr. Ferlings explained that the other extreme is to include all experts in accounting and auditing, including those within the firm, in the</p>	<p>Point taken into account.</p> <p>In addition to the comments made by Mr. Ferlings during the CAG meeting, which were supported by the IAASB, the IAASB considered that it would not be practicable, for the reason noted above, for people with expertise in a specialized area of accounting or auditing, whether they are internal or external, to be considered experts for the purpose of ISA 620 (Revised and Redrafted). Further, as noted above, the</p>

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<p>definition of auditor’s expert. This would not seem appropriate. In response, Ms. De Beer suggested that a useful dividing line could be based on the status of the accounting specialist: if the expert is in-house, then the expert should be treated as part of the engagement team; if external, then the auditor should apply ISA 620 (Revised and Redrafted) and not treat the expert as a member of the engagement team subject to the firm’s quality review.</p>	<p>IAASB considered that where a person other than an external expert performs audit procedures, that person needs to be a member of the engagement team for quality control and independence reasons.</p>
<p>Mr. Peyret supported Ms. De Beer’s observations. He also noted that it is difficult to distinguish between ‘providing advice’ and ‘performing auditing procedures on the engagement’ in relation to a complex accounting matter.</p> <p>Further, one should not underestimate the need to consider auditing procedures in determining whether IFRS has been applied properly. Mr. Ferlings acknowledged that there are significant challenges in an audit under IFRS, and explained that these cannot be resolved by auditing standards. In his view, the engagement partner must fully understand the accounting requirements in order to be in a position to form an opinion on the financial statements. He also suggested that auditors will overtime develop the necessary competencies in IFRS. He explained that the Task Force is recommending to the IAASB that a summary of the relevant requirements of ISA 620 (Revised and Redrafted) be included in the application material</p>	<p>Point taken into account.</p> <p>The distinction between performing audit procedures and consultation has been embedded in the definitions of “engagement team” and “assurance team” since the IFAC Code was revised in 2005. While in some cases consideration of this concept requires the exercise of professional judgment regarding, e.g., the nature and extent of the work performed, and the nature and extent of the involvement of members of the engagement team in the expert’s work, respondents to the exposure draft did not indicated that this is a major concern, nor one that has caused any implementation difficulties in practice.</p> <p>Point taken into account.</p> <p>The IAASB agreed to include in ISA 220 (Redrafted) the summary referred to by Mr. Ferlings during the CAG meeting.</p> <p><i>See paragraph A20 of ISA 220 (Redrafted) as issued by the IAASB in December 2008.</i></p>

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of ISA 220 (Redrafted), to recognize the fact that 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.	
While accepting that there is a level of core competency expected of the engagement team before an engagement should be accepted, Mr. Upton observed that the challenge is often in relation to new, one-off specific accounting standard addressing a complex matter where the auditor needs to engage external expertise to help design audit procedures and ensure that the accounting is right; with but this one exception, the auditor otherwise has the necessary competencies in relation to all of the other aspects of the audit. However, as far as he is aware, under no circumstances would external experts accept being part of the engagement team.	Point taken into account. As noted above, the IAASB considered that where a person other than an external expert performs audit procedures, that person needs to be a member of the engagement team for quality control and independence reasons.
Mr. Koktvedgaard noted that achievement of international convergence of standards and their uniform application may ultimately require some form of global interpretation body to which the firm or the auditor need to consult on a complex matter in a particular circumstance. He was therefore of the view that there may be merit in providing guidance in the ISA for the auditor to consult with such an external body. Mr. Upton supported this comment, noting that the circumstance of local interpretation of IFRS is the worst conceivable situation.	Point taken into account. The IAASB considered that reference to such a body may be appropriate after such a body is set up, but as this is not yet the case, reference at this stage would be premature.
MANAGEMENT’S EXPERTS	
Mr. Gutterman indicated that Working Group has no additional comments. It is of the view that the revised draft in regard to guidance on management’s experts is a significant improvement	Support noted.

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over the exposure draft.	
<p>Mr. White said that it was not clear that the reasons for distinguishing accounting expertise from other expertise in the case of the auditor’s expert could be applied in the case of a management’s expert. It was therefore difficult to understand why it was appropriate to exclude accounting expertise from the definition of management’s experts. Messrs. Morris and Roussey supported this view indicating that the definition should be broadened to include accounting expertise. Mr. Roussey also suggested that guidance should be included in the proposed conforming amendments to ISA 500 (Redrafted)⁴ on how the auditor evaluates the competencies of management’s experts, including those with accounting expertise, for example in the case where management uses an expert to develop a model for valuing derivative financial instruments for accounting purposes.</p>	<p>Point taken into account.</p> <p>In addition to the benefits of maintaining symmetry between the definitions of auditor’s expert and management’s expert, the IAASB was of the view that including accounting (and auditing) expertise within the definition of management’s expert would weaken the focus of the amendments to ISA 500 (Redrafted), which is on the work that is required of the auditor because the expertise being used by management is in a field that is different from the field in which the auditor him/herself has expertise. The IAASB considered that ISA 500 (Redrafted) particularly when coupled with ISA 540 (Revised and Redrafted),⁵ adequately addresses the auditor’s responsibilities when, e.g., management uses an expert to develop a model for valuing derivative financial instruments for accounting purposes.</p>
<p>Ms. Sucher was of the view that the definition of management expert is very broad and could conceivably cover all forms of expertise outside accounting that help lead to the preparation of the financial statements. She suggested that the Task Force revisit whether the definition, read on a stand-alone basis, could inadvertently be interpreted too broadly. She was also of the view that it would be helpful to refine the definition to help focus the auditor on areas where an expert is used and there is likely to be a need for the auditor to perform specific procedures. Mr. Ferlings noted the focus of the auditor’s work auditor is guided by the auditor’s assessed risks of material misstatement; the auditor need not perform specific procedures when management uses an expert in an area where there</p>	<p>Point taken into account.</p> <p>In addition to the comments made by Mr. Ferlings during the CAG meeting, which were supported by the IAASB, the IAASB considered that while the definition of management’s expert does not involve a “bright line” distinction and may require the exercise of professional judgment to ensure it is applied appropriately, the overall intent of the ISA in this respect is sufficiently clear from the context in which the term is used.</p>

⁴ ISA 500 (Redrafted), “Audit Evidence.”

⁵ ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”

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is no assessed risk of material misstatement.	
AGREEMENT WITH THE EXPERT	
Mr. Robberecht indicated that the European Commission (EC) is of the view that the ISA should require the agreement between the auditor and the auditor’s expert to be in writing in all cases and documented in every audit file. This position was explained in the EC’s comment letter on the exposure draft. Mr. Koltvedgaard agreed with this view.	<p>Point not accepted.</p> <p>The IAASB discussed the reasons for, and implications of, having the conditional phrase “in writing when appropriate” in the requirement regarding agreement with the auditor’s expert. The IAASB agreed that this phrase should remain in the requirement because it properly reflects the auditor’s obligation given that the ISA covers a wide range of circumstances in which the work of an auditor’s expert may be used: from a brief consultation on a narrowly defined issue, to much more wide ranging matters, such as actuarial calculations to estimate the liabilities of a life insurance enterprise. The IAASB also agreed to: introduce additional guidance noting matters that affect whether it is appropriate for the agreement to be in writing; and move the application material regarding the role of internal protocols etc as evidence of the agreement, from the section on documentation to the section dealing with the agreement.</p> <p><i>See paragraphs A24 and A26 of ISA 620 (Revised and Redrafted) as issued by the IAASB in December 2008.</i></p>
Mr. Koltvedgaard was of the view that practical issues exist in relation to confidentiality and cases where management is not made aware of the identity of the auditor’s expert. In some specific areas, the importance of business secrets might be such that management is not willing to share information with an external expert. Mr. Robberecht agreed with Mr. Koltvedgaard’s comments, and suggested that it may be appropriate for the auditor to communicate to management the auditor’s use of an external expert. Mr. Ferlings was of the view that the engagement partner’s primary consideration is ensuring that the right expertise is	<p>Point taken into account.</p> <p>In addition to the comments made by Mr. Ferlings during the CAG meeting, which were supported by the IAASB, the IAASB noted that an entity may be concerned about a particular expert having access to the entity’s information because of interests or relationships that expert may have with, e.g., the entity’s competitors. It was agreed that the auditor should not be required to obtain the entity’s approval as that could potentially allow the entity to have undue influence over the auditor’s selection of external experts. It was agreed, however, that: the</p>

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brought to bear on an engagement.	<p>need for auditor’s experts to observe confidentiality requirements should be separately identified in the requirement dealing with the auditor’s agreement with the expert; the application material dealing with this requirement should note that the entity may have requested that specific confidentiality provisions be agreed with auditor’s external experts; and the application material dealing with inquiry of the entity about any known interests or relationships that may affect an auditor’s expert’s objectivity should be given additional prominence.</p> <p><i>See paragraphs 11(d), A31, and A20(a) of ISA 620 (Revised and Redrafted) as issued by the IAASB in December 2008.</i></p>
DOCUMENTATION	
<p>Ms. Sucher noted that the ISAs in general are inconsistent in regard to documentation requirements. Nevertheless, she was of the view that it would be appropriate to include a documentation requirement in proposed ISA 620 (Revised and Redrafted) consistent with that in ISA 610 (Redrafted).⁶ These ISAs are similar in nature and therefore should be consistent in terms of the required documentation of the use of the work of an expert and the auditor’s conclusions about the adequacy of such work. She also noted that representatives of the Canadian Public Accountability Board (CPAB) indicated in their presentation the previous day that several oversight and inspection bodies have identified documentation of the auditor’s use of the work of an expert as requiring improvement in practice. Messrs. Robberecht and Scates supported Ms. Sucher’s comments.</p>	<p>Point not accepted.</p> <p>The IAASB considered the need for a requirement analogous to that in ISA 610 to document conclusions regarding the adequacy of the work of internal audit. Given the wide range of circumstances covered by ISA 620, the IAASB agreed not to include a requirement as that would be inappropriate at the lower end of the scale, e.g. a brief consultation on a narrowly defined issue. It also agreed that a conditional requirement, akin to that for having the agreement with the expert in writing, is not necessary because if a matter were appropriate to be documented in the circumstances of the engagement, then it would already be required to be documented by a proper interpretation of ISA 230.</p>

⁶ ISA 610 (Redrafted), “Using the Work of Internal Auditors.”

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Mr. Robberecht was of the view that the definition of auditor’s experts omits the fact that in some jurisdictions the auditor may be required by law or regulation to include the auditor’s expert as part of the engagement team.	<p>Point accepted.</p> <p>The application material was amended to refer to the fact that in some jurisdictions, law or regulation may require that an auditor’s external expert be treated as a member of the engagement team, and that such experts may therefore be subject to relevant ethical and other professional requirements as determined by that law or regulation.</p> <p><i>See paragraph A12 of ISA 620 (Revised and Redrafted) as issued by the IAASB in December 2008.</i></p>

Material Presented – IAASB CAG REFERENCE PAPERS ONLY

Final version of ISA 620 (Revised and Redrafted) as issued by the IAASB in December 2008

<http://www.ifac.org/Store/Details.tmpl?SID=1229365636610731&Cart=1229371027613490>

Final version of ISA 220 (Redrafted) as issued by the IAASB in December 2008

<http://www.ifac.org/Store/Details.tmpl?SID=1229365067610460&Cart=1229371027613490>

Updated Agenda Item 12 (December IAASB meeting), for the text of amendments to paragraph A10 of ISA 220 (Redrafted) and paragraph 2(a) of ISA 620 (Revised and Redrafted) as approved by the IAASB.

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4447>