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**Basis for Conclusions:
ISA 620 (Revised and Redrafted),
Using the Work of an Auditor's
Expert**

*Prepared by the Staff of the International Auditing and
Assurance Standards Board*



**International Federation
of Accountants**

**BASIS FOR CONCLUSIONS:
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This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert," which was approved by the IAASB in September 2008.¹

Background

1. The IAASB commenced the project to revised ISA 620² in December 2004. The project was initiated for a number of reasons. First, there were concerns that the extant ISA 620 mainly focused on the use of experts with respect to substantive procedures regarding the measurement of account balances, whereas experts may be used for other purposes during the audit. Secondly, it seemed likely that developments in financial reporting, such as the wider use of fair value accounting, might require more frequent use of experts by the auditor. Finally, several national auditing standards had recently updated their corresponding national standards in a number of respects.
2. During the project, the IAASB considered matters including whether the auditor's report should refer to the expert, and how the nature, timing and extent of audit procedures varies depending on such matters as: the nature of, and risks of material misstatement in, the matter to which the expert's work relates; the significance of the expert's work in the context of the audit; the auditor's knowledge of and experience with previous work performed by the expert; and whether the expert is subject to the auditor's firm's quality control policies and procedures.
3. The IAASB has consulted widely on its proposals. Significant proposals were discussed with the IAASB Consultative Advisory Group (CAG) at various stages of developing the proposed ISA. The IFAC Small and Medium Practices Committee commented on various drafts of the proposed ISA.
4. In October 2007, the IAASB issued an exposure draft of proposed ISA 620 (Revised and Redrafted)³ (ED-ISA 620). The comment period for the exposure draft closed on February 15, 2008. The IAASB received forty-seven comment letters from a variety of respondents, including regulators and oversight authorities, IFAC member bodies, national auditing standard setters, audit firms and professional and public sector organizations. The IAASB made changes to ED-ISA 620 as a result of the comments received.
5. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 620, and how the IAASB has addressed them.

¹ See minutes of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4426>.

² ISA 620, "Using the Work of an Expert."

³ Proposed ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

Definitions

6. The definitions in ED-ISA 620, and related definitions in the IFAC *Code of Ethics for Professional Accountants* (IFAC Code), ISQC 1 (Redrafted),⁴ and ISA 220 (Redrafted),⁵ determine to whom those documents apply. The definitions contained distinctions that may require the exercise of professional judgment to ensure they are applied appropriately in the particular circumstances of each audit. These definitions required the auditor to determine whether:
- The relevant expertise is in accounting or auditing, or another field. This distinction was embedded in the definition of “auditor’s expert” in ED-ISA 620.
 - An auditor’s expert is a partner or staff of the firm (an internal expert), or engaged by the firm (an external expert). This distinction was embedded in the definition of “engagement team” in the IFAC Code, ISQC 1 (Redrafted) and ISA 220 (Redrafted), and flowed through to the definition of “auditor’s external expert” in ED-ISA 620.
 - An auditor’s expert performs audit procedures on the engagement, or is consulted only. This distinction was also embedded in the definition of “engagement team” in the IFAC Code, ISQC 1 (Redrafted) and ISA 220 (Redrafted).
7. These determinations 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. Respondents views on each distinction, and the IAASB’s basis for conclusion on issues raised, are discussed below.

Expertise in Accounting and Auditing

8. The definition of an “auditor’s expert” in ED-ISA 620 excluded individuals or organizations with expertise in accounting or auditing. While the majority of respondents who commented on this offered support for the position taken in ED-ISA 620, a few respondents were opposed to any distinction between experts based on their accounting or auditing expertise. In addition, a few respondents variously suggested excluding only internal accounting and auditing experts, or excluding only internal accounting experts.
9. The IAASB concluded that ISA 620 (Revised and Redrafted) should distinguish expertise in accounting or auditing from other expertise. If accounting and auditing expertise were not specifically excluded from the definition of an auditor’s expert, then all the auditor’s professional staff performing audit procedures on an engagement (i.e., the entire engagement team) may 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 have expertise in accounting

⁴ ISQC 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.”

⁵ ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements.”

and auditing, and so using expertise in another field as the distinguishing factor is appropriate.

10. The IAASB did agree however to establish further guidance to assist in distinguishing between expertise in accounting or auditing and expertise in another field, particularly with respect to expertise in taxation, as suggested by some respondents. See paragraph A2 of ISA 620 (Revised and Redrafted).

Specialized Areas of Accounting or Auditing

11. A small number of respondents argued that individuals or organizations with expertise 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.
12. While the IAASB recognized that the work of individuals or organizations with expertise in specialized areas of accounting or auditing will need to be used on many audits, it also acknowledged 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. 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).
13. Further, aspects of how an auditor deals with the work of individuals or organizations with expertise in an area of specialization that is within the auditor’s own field of expertise (i.e., accounting and auditing) are different from how an auditor deals with the work of individuals or organizations with expertise in an unrelated field. The intention of ISA 620 (Revised and Redrafted) is to focus on dealing with the work of individuals or organizations with expertise in an unrelated field. Nonetheless, although the IAASB was not persuaded that individuals or organizations with expertise in specialized areas of accounting or auditing should be considered experts for the purpose of ISA 620 (Revised and Redrafted), the IAASB did agree that a number of the matters addressed in the ISA may be applicable when their work is used. Accordingly, the IAASB determined that material relating to members of the engagement team with such expertise should be included in ISA 220 (Redrafted). See paragraph A20 of ISA 220 (Redrafted).

Dual Expertise

14. A number of respondents considered that ED-ISA 620 was not clear with respect to individuals or organizations possessing expertise in accounting or auditing in addition to expertise in another field. In response, the IAASB amended relevant aspects of ISA 620 (Revised and Redrafted) to make it clear that the ISA deals with the auditor’s use of work in a field of expertise other than accounting or auditing, regardless of whether the expert whose work is used happens to also possess accounting or auditing expertise. See paragraph 1 and the definition of auditor’s expert in paragraph 6 of ISA 620 (Revised and Redrafted).

Internal and External Experts

15. The definition of “engagement team” is included in ISQC 1 (Redrafted), ISA 220 (Redrafted), and the IFAC Code. During the development of ED-ISA 620, the IAASB had discussed with representatives of the International Ethics Standards Board for Accountants whether the definition of engagement team should include external experts.
16. 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 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.

17. Comments on the definition of engagement team were received from a number respondents to the exposure drafts of proposed ISQC 1 (Redrafted) and ISA 220 (Redrafted), as well as ED-ISA 620. Of the respondents who commented on this matter, only two stated a preference for external experts to be included in the definition of engagement team, but neither offered substantive reasons. Also, some respondents commented that the definition of an auditor’s internal expert, which is part of the definition of auditor’s expert in paragraph 6(a) of ISA 620 (Revised and Redrafted), should include not only partners and staff of the auditor’s firm, but also partners and staff of network firms.
18. The IAASB confirmed its initial view that external experts should be excluded from the definition of engagement team, but agreed that the definition of an auditor’s internal expert should include partners and staff of the network firm.

“Performs Audit Procedures on the Engagement”

19. The definition of engagement team includes: “individuals engaged by the firm or a network firm, who perform procedures on the engagement.” A few respondents made comments that suggested potential difficulty in determining whether some individuals “perform audit procedures on the engagement” or whether they are merely being consulted.
20. The IAASB considers that the concept that the engagement team includes those individuals who perform audit procedures on the engagement, as opposed to those being consulted, is clear and remains appropriate. The notion of consultation has existed 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 of “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,” there has been no evidence to date that indicates there is widespread concern or difficulty in implementing this concept in practice.

21. Related to this is the distinction between using the work of an auditor’s expert who has been consulted, and consulting an individual or organization with expertise in a particular field for the purpose of enhancing the auditor’s own capacity to deal with matters in that field. The IAASB agreed to include additional guidance to make the distinction between these two circumstances clearer. See paragraph A7 of ISA 620 (Revised and Redrafted).

Determining the Need for an Auditor’s Expert

22. Paragraph 7 of ED-ISA 620 stated: “If expertise in a field other than accounting or auditing is required to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor’s expert.” Paragraphs A2-A8 provided guidance in support of the application of this requirement.
23. A regulatory respondent was of the view that the guidance as to when an expert is needed was not worded strongly enough to require the use of experts in all cases where regulators would expect experts to be involved. While agreeing that in many cases judgment is required when considering whether an expert is needed, the respondent suggested 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 in the ISA could be strengthened to this effect.

IAASB Decision

24. The IAASB concluded that it would not be appropriate to establish a rebuttable presumption regarding the use of an auditor’s expert in specified circumstances. The IAASB considered that there is 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 the need for an auditor’s expert depends on a large number of variables and is, therefore, very much dependant on the circumstances of the engagement. Such variables include, for example (as noted in paragraph A8 of ISA 620 (Revised and Redrafted)):
 - Whether management has used a management’s expert in preparing the financial statements.
 - The nature and significance of the matter, including its complexity.
 - The risks of material misstatement in the matter.
 - The expected nature of procedures to respond to identified risks, including: the auditor’s knowledge of and experience with the work of experts in relation to such matters; and the availability of alternative sources of audit evidence
25. The IAASB also considered whether to strengthen the requirement in paragraph 7 of ED-ISA 620 to introduce a rebuttable presumption that the auditor needs to use an auditor’s expert whenever management has determined that it needs to use a management’s expert.

The IAASB concluded, however, that it would not be reasonable to assume that this will nearly always be the case. As noted in paragraph A6 of ED-ISA 620 (paragraph A9 of ISA 620 (Revised and Redrafted)), when management has used a management's expert, the auditor's decision on whether to use an auditor's expert may be influenced by a number of factors, and as such it would not be reasonable to impose a rebuttable presumption simply because management uses a management's expert.

Agreement with the Auditor's Expert

26. Paragraph 11 of ED-ISA 620 required that the auditor agree with the auditor's expert on certain matters, and for that agreement to be "in writing when appropriate." Several respondents to ED-ISA 620 commented on whether, and if so to what extent, the agreement between the auditor and the auditor's expert should be required to be in writing, as follows.

In Writing in All, or in Certain Prescribed, Circumstances

27. Half of those who commented on paragraph 11 of ED-ISA 620 were of the view that the agreement with the auditor's expert should be in writing in all, or in certain prescribed, circumstances. For example, a respondent was of the view that the agreement should be in writing in all circumstances, and argued that since an expert will only be involved in work of significance in the context of the audit, the guidance that the more significant the work of the auditor's expert the more likely it is that the agreement will need to be in writing, is not helpful. The IAASB did not agree with this view, as the premise upon which this objection is founded is contrary to the basis underlying ED-ISA 620 that the relative significance of an auditor's expert's work to the auditor can vary as the engagement circumstances vary, as explained in paragraph 34 of this document.
28. A few respondents stated their belief that certain matters (e.g., nature, scope and objectives of the auditor's expert's work) should be agreed in writing, or that a written agreement should always exist in certain circumstances (e.g., when the auditor's expert is external). These respondents did not provide a reason for their belief. Another respondent suggested that a written agreement should be required when the auditor's expert is external, stating that there is a perceived lack of clarity with the current requirement in paragraph 11. The IAASB addressed the clarity of this requirement by introducing additional guidance, as explained in the following section.

"In Writing When Appropriate"

29. Half of those who commented on paragraph 11 of ED-ISA 620 thought that because the words "in writing when appropriate" are conditional, they 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.
30. The IAASB determined that, although the phrase "in writing when appropriate" is conditional, it should remain in the requirement in paragraph 11 of ISA 620 (Revised and Redrafted) as it properly reflects the auditor's obligation. The IAASB agreed, however, to introduce additional guidance explaining matters that may affect the level of detail and formality of the agreement between the auditor and the auditor's expert, including whether

it is appropriate that the agreement be in writing. See paragraph A24 of ISA 620 (Revised and Redrafted).

Parallel Drafting

31. A few respondents suggested the drafting of paragraph 11 of ED-ISA 620 should parallel what they believed to be similar requirements in other ISAs. On the one hand, it was suggested that the drafting follow that in proposed ISA 210 (Redrafted)⁶ through a requirement for “written contractual agreements between the auditor and the [external] expert.” On the other hand, it was suggested that the guidance in ISA 600 (Revised and Redrafted)⁷ specifically acknowledging that “communication between the group engagement team and the component auditor ... may not necessarily be in writing,” provides the appropriate text upon which to build guidance for ISA 620 (Revised and Redrafted).
32. 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 of the above situations:
 - 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 the 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, and therefore oral communications are more likely to be adequate.

Assumptions, Methods and Data

33. The proposed requirement in ED-ISA 620 to evaluate the adequacy of the auditor’s expert’s work with respect to assumptions and methods, and source data, was prefaced by the phrase “if significant to the auditor’s use of that expert’s work.” A few respondents challenged the use of this phrase because it created a conditional requirement.

IAASB Decision

34. The IAASB reaffirmed its view that ISA 620 (Revised and Redrafted) should continue to be written on the basis that an auditor may encounter a wide range of circumstances regarding the use of an auditor’s expert’s work; 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. This permeates many aspects of the auditor’s considerations, including whether assumptions and methods, and source data, are

⁶ Proposed ISA 210 (Redrafted), “Agreeing The Terms Of Audit Engagements.”

⁷ ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).”

significant in the circumstances. For example, source data or assumptions are unlikely to be significant in the case of a brief consultation with a legal expert on a regulatory matter where the legal expert is provided with the facts of the matter and provides his or her interpretation of the law or regulation on the basis of those facts.

35. The IAASB therefore concluded that the concept of significance as the trigger for application of the requirement to evaluate the adequacy of the auditor's expert's work with respect to assumptions and methods, and source data, as expressed in ED-ISA 620, continues to be appropriate. See paragraph 12 of ISA 620 (Redrafted).

Management's Experts

36. 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). In developing ED-ISA 620, the IAASB concluded that the auditor's use of work performed by these two types of expert fundamentally differs. It therefore considered that it was necessary to draw a clearer distinction between the two, notwithstanding some of the related audit considerations being similar. Accordingly, ED-ISA 620 dealt exclusively with considerations relevant to using the work of an auditor's expert. Material dealing with the work of a management's expert was presented in the conforming amendments to proposed ISA 500 (Redrafted).⁸
37. The majority of respondents supported the position taken in ED-ISA 620, albeit with some caveats in most cases. In particular, the respondents were of the view that more guidance, and in some cases requirements, were needed in ISA 500 (Redrafted), or elsewhere in the ISAs, regarding various aspects of using the work of a management's expert.

IAASB Decision

38. The IAASB concluded, on the basis of the comments and a comparison of ED-ISA 620 with extant ISA 620, that it was appropriate to include the following requirements and guidance in the conforming amendments to ISA 500 (Redrafted):
- (a) Two requirements, with accompanying guidance, on:
 - (i) Obtaining an understanding of the work of a management's expert (the equivalent of paragraph 10 of ISA 620 (Revised and Redrafted) (See paragraph 8(b) of ISA 500 (Redrafted))); and
 - (ii) Evaluating the adequacy of a management's expert's work as audit evidence for the relevant assertion (the equivalent of paragraph 12 of ISA 620 (Revised and Redrafted) (See paragraph 8(c) of ISA 500 (Redrafted))).
 - (b) Guidance on the factors affecting the nature, timing and extent of audit procedures with respect to a management's expert. See paragraph A36 of ISA 500 (Redrafted).

⁸ Proposed ISA 500 (Redrafted), "Audit Evidence."

Documentation

39. A few respondents were of the view that ED-ISA 620 should include a specific documentation requirement. Among other matters, it was suggested that the auditor be required to document: the auditor's conclusion about the need to use an auditor's expert, including the reasons for selecting the particular expert; information concerning the auditor's expert's expertise (including qualifications), competence, integrity and objectivity; a description of the auditor's expert's work and findings; the auditor's assessment of the relevance of the auditor's expert's report or other findings to the objective of the engagement, and the auditor's conclusion.

IAASB Decision

40. The IAASB is generally concerned not to undermine the general force of the requirements of ISA 230 (Redrafted)⁹ by introducing specific requirements for documentation that would in any event be required by a proper interpretation of ISA 230 (Redrafted). It considered that each of the items suggested by respondents would already be required to be documented, if it were appropriate to do so in the circumstances of the audit, in accordance with ISA 230 (Redrafted). Accordingly, it concluded that it is unnecessary to include a specific documentation requirement in ISA 620 (Revised and Redrafted).

⁹ ISA 230 (Redrafted), "Audit Documentation."