

IAASB Project Proposal — Using the Work of an Expert

1. Subject

Revision of ISA 620, *Using the Work of an Expert*.

2. Reasons the Subject Should Be Studied Now

The Revisions Task Force has reviewed ISA 620 and believes it should be revised now because:

- The ISA may be out of step with the views of other auditing standard setters in its scope (e.g., regarding the coverage of experts employed by the audit firm).
- Concerns about the treatment of employee auditors with special skills have been raised by a number of subcommittees (e.g., IT, E-com, Environment and Fair Values).
- There is an opportunity to leverage off recent work by the CICA, which has published a Research Report and a recent revision to its assurance standards on this subject.

Additional reasons to reconsider ISA 620 include:

- The movement of accounting standards toward a fair-value model increasingly requires auditors to rely on the work of experts in gathering audit evidence about measurements at fair value.
- As more companies use information technology in the implementation of internal controls, the auditor may need to rely on the work of IT experts in understanding and testing internal controls, and there is some evidence that auditors have difficulty in using the work of experts, especially IT experts.
- The definition of “expert” in ISA 620 makes it difficult to determine the difference between an expert as defined in ISA 620, and a member of the audit team with specialized skills, who is subject to supervision under ISA 220 “Quality Control for Audit Work.”
- There is an opportunity to converge US and international auditing standards, and share resources with the US Auditing Standards Board (US ASB), which plans to revise its standard on the topic.

3. Scope of Project

(a) List the Major Problems and Issues that Should be Addressed

The scope of the project is limited to the revision of ISA 620 in relation to the audit of historical financial statements. It will not address issues related to using the work of an expert on broader assurance engagements. Possible amendments to, or modification of, ISA 100—“Assurance Engagements” the proposed standard on assurance engagements will be considered as appropriate; however, any implications would only be incidental.

Issues that should be addressed with respect to the revision of ISA 620 in relation to the audit of historical financial statements include:

- Whether experts employed by the audit firm should be covered by ISA 620, ISA 300, “Planning,” or ISA 220, or some combination of those standards.
- Whether employee auditors with special skills should be regarded as “experts” (or

alternatively as some form of “specialists”).

- Whether undertaking additional audit procedures or seeking audit evidence from another expert should be mandatory if the auditor is concerned about the competence or objectivity of the expert (e.g., when an entity person is the expert).
- The circumstances, if any, in which the expert should be or can be referred to in the auditor’s report.
- Standards/guidance on using an expert in all phases of an audit: in gathering audit evidence through audit procedures, be they risk assessment procedures, tests of controls, or substantive procedures.
- Whether ISA 100, “Assurance Engagements” paragraphs 61-67 provides appropriate guidance as the umbrella for “other-than-audit” assurance engagements.

(b) Describe Any Implications For Persons Or Groups Other Than the Committee

A revision of ISA 620 may have conforming implications for the proposed standards on Quality Control, the Audit Risk, and Assurance engagements, and the proposed revision of ISA 300. Framework task forces. In addition to conforming changes in both ISAs and IAPs directly attributable to revising ISA 620, ISA 220 and ISA 300 also may be affected in the revisions contemplated as a result of the Quality Control and Audit Risk projects.

(c) Consider Whether IT Requires Particular Consideration

IT experts are frequently used by auditors to perform risk assessment procedures, gather evidence from substantive procedures, as well as to understand and test internal controls. Auditors also use the work of auditor’s involved with service organizations, and also use internal auditors with IT expertise in certain ways.

4. Indicate the Type of Material to Be Published

- Revision of ISA 620 ~~(with or without corollary amendments to ISA 220 and ISA 300, other than conforming changes).~~
- Possible ~~amendments to or modifications of ISA 100~~ amendments to or modifications of the proposed standard on assurance engagements. (Note: ISA 620 applies to the audits of historical financial statements. Amendments to or modifications of ~~ISA 100~~ the proposed standard on assurance engagements would be incidental to this project).
- Identification of conforming changes necessary in other ISAs, for example, ~~ISA 220 (as it relates to engagements) and ISA 300~~ the proposed standards on quality control and audit risk, as well as the proposed revised ISA 300.
- ~~Other conforming changes are possible.~~

The timeline for the project would be as follows:

December 2002 IAASB Meeting	Approval of <u>revised</u> project proposal
May 2003 IAASB Meeting (TBC)	
January 2003	First Task Force meeting—Develop Issues paper
March 2003 IAASB Meeting	Discuss identified issues with IAASB
April 2004 IAASB Meeting	
April 2004	Second Task Force meeting
June 2003	Third Task Force meeting
June 2003	Task Force telephone conference
July 2003 IAASB Meeting	First draft of proposed revisions to be considered by IAASB
June 2004 IAASB Meeting	<u>First read of proposed revised ISA 620</u>
August 2003	Fourth Task Force meeting
September 2003	Fifth Task Force meeting
September 2003	Task Force telephone conference
October 2003 IAASB Meeting	ED to be approved by IAASB
September 2004 IAASB Meeting	
December 2003 IAASB Meeting	Fail safe for ED

5. Resources Required

~~JOINT TASK FORCE MEMBERSHIP~~

It is recommended that the task force ~~be a joint task force with~~include representatives of the US ASB, CICA and other national standard setters that recently revised their related auditing standard. ~~An IAASB member will chair the joint task force. The other members should comprise an equal balance of IAASB representatives and US ASB representatives (ideally, three from each Board).~~—The task force should embody subject matter expertise, such as financial services, real estate, construction, or extractive industries. At least one member of the task force should have a strong IT technical auditing background.

Note: ~~To represent the US ASB or the IAASB, one need not be a member of either board. Task force members do not have to be IAASB members. If the subject matter or IT expertise cannot be found among the current members of either board, then other, “outside” individuals with such expertise should be sought to represent either the US ASB or the IAASB on the task force.~~

STAFF

~~The AICPA will provide the primary staff support. One staff member of the IAASB Secretariat will be identified to liaise with the task force and relevant AICPA staff to the extent considered necessary. One IAASB staff member will provide staff support to the task force. In the interim, this staff member will monitor the work of the related US ASB project.~~

6. List Important Sources of Information That Address the Matter Being Proposed

Sources of information that address the matter being proposed include:

- “Use of Specialists in Assurance Engagements” published by the CICA in 1999 (research study).
- AICPA Practice Alert No. 2002-2 “Use of Specialists.”
- Large firm internal documentation as evidence of current practice.
- File notes from IT, E-com, Environment and Fair Values subcommittee staff noting issues identified.

- Revisions Subcommittee dossier.

INTERNATIONAL STANDARDS ON AUDITING

- ISA 100 “Assurance Engagements.”
- ISA 220 “Quality Control for Audit Work. Provides guidance on the supervision and review of assistants.”
- ISA 300 “Planning.”
- ISA 620 “Using the Work of an Expert.” Provides guidance on using the work of an expert to obtain audit evidence. The expert may be (a) engaged by the entity; (b) engaged by the auditor; (c) employed by the entity; or (d) employed by the auditor.

CANADIAN STATEMENTS ON ASSURANCE STANDARDS

- Final standard (2002) “Use of Specialists in Assurance Engagements.”

US STATEMENTS ON AUDITING STANDARDS

- AU 311 “Planning and Supervision”. Provides guidance on supervising assistants. Also provides guidance on using the work of an “outside professional” to understand controls and to design and perform audit procedures (substantive and tests of controls).
- AU 319 “Internal Control in a Financial Statement Audit.” Provides guidance using the work of an outside professional to understand IT controls, or to design and perform tests of IT controls or substantive tests.
- AU 336 Using the Work of a Specialist.” Provides guidance on using the work of a specialist to obtain audit evidence from substantive tests. The expert may be (a) engaged or employed by the entity; (b) employed by the auditor and engaged by the entity to provide advisory services; or (c) engaged by the auditor.
- Proposed SAS on “Planning and Supervision.” Broadens the guidance in AU 311 and 319 on using the work of an outside IT professional to include using the work of professionals possessing “specialized skills.”

Further international literature review yet to be undertaken.

7. Factors That May Add To Complexity or Length of Project

The following factors may add to the complexity or length of the project:

- IOSCO’s timetable for reviewing ISA 620 is unknown. If this proposal is accepted, IOSCO should be notified to ensure there is no misunderstanding.
- ISA 620 is not expected to be directly affected by the Audit Risk Model project; however, conforming changes -may be necessary.
- The proposed standards on quality control and the proposed revised ISA 220 and ISA 300 may require amendment as a consequence of the project.
- ISA 100 paragraphs 61-67 The proposed standard on assurance engagements may need to be revised as a consequence of this project (e.g., for coverage of experts used in assurance engagements other than financial statements audits).
- Conforming changes to a number of standards or statements is possible.
- Consideration of the issues for which there is no consensus among national standard setters could significantly increase both the complexity and length of the project.

Prepared by Susan Jones, AICPA

Date October 7, 2002

Revised by Alta Prinsloo, IAASB

Date March 3, 2003

Comments by Technical Managers/Committee Secretaries

The comments of *each* Technical Manager are required before this Project Proposal is considered by the committee proposing to undertake the project.

Secretary to FMAC

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

Signed Robin MathiesonDate April 21, 2003**Secretary to IAASB**

CLASSIFICATION

Class: A B1 B2 C

SUGGESTED PRIORITY

OTHER COMMENTS

Signed _____

Date _____

Secretary to Education

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

Signed Claire EganDate April 22, 2003

Secretary to Ethics

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

This project is a priority from an ethics point of view with regards to independence. Section 8 of the Code of Ethics already includes some guidance relating to independence issues in connection with experts.

Signed Gill SpaulDate April 22, 2003**Secretary to Compliance**

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

Signed Peter JohnstonDate April 15, 2003**Secretary to PSC**

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

Signed Jerry GutuDate April 25, 2003

Secretary to TAC

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

Low.

OTHER COMMENTS

None.

Signed Russell GuthrieDate April 17, 2003**Secretary to SMP Task Force**

CLASSIFICATION

Class: A

SUGGESTED PRIORITY

High.

OTHER COMMENTS

This is relevance to small firms. Smaller practices would need to use experts as they are less likely to have expertise on their staff.

Signed Robin MathiesonDate April 21, 2003**Technical Director**

CLASSIFICATION

Class: A B1 B2 C

SUGGESTED PRIORITY

OTHER COMMENTS

Signed _____

Date _____

[Blank page]