

IAASB Project Proposal — Using the Work of an Expert

(Approved by IAASB December 2004)

1. Subject

Revision of ISA 620, “Using the Work of an Expert.”

2. Reasons the Subject Should be Studied Now

The former Revisions Subcommittee reviewed ISA 620 and indicated to the Planning Committee (now the Steering Committee) that it believed that the ISA should be revised. Subsequent to the above, the Canadian Institute of Chartered Accountants (CICA) completed a research project and revision of its assurance standard on this subject. In addition, the US Auditing Standards Board (ASB) undertook a project to revise SAS No. 73, “Using the Work of a Specialist” (AICPA, Professional Standards, AU sec. 336).

Reasons to revise ISA 620 include:

- The ISA is out of step with the views of national auditing standard setters with regard to its scope, for example:
 - The application of the ISA is limited to the use of the work of an expert with skills or knowledge in fields other than accounting and auditing (e.g., the movement of international 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); and
 - The ISA states that: “During the audit the auditor may need to obtain ... audit evidence in the form of reports, opinions, valuations and statements of an expert.” The examples cited mainly focus on the measurement of account balances. The use of the work of an expert in all (or other) phases of an audit of historical financial information may be necessary (e.g., the auditor may need to use the work of an IT expert in obtaining an understanding and testing of internal control).
- In addition to the above, national standard setters have addressed, or are in the process of addressing, other matters that are not covered in the extant ISA. Furthermore, a number of former IAASB task forces (e.g., IT, E-com, Environment, Fair Values, and Quality Control) have raised concerns about the use of the work of an expert. Additional matters to consider include the following:
 - The treatment of experts employed by the audit firm, and of members of the audit team with specialized skills and knowledge.
 - The treatment of client employees with specialized skills and knowledge.
 - Whether under certain circumstances the auditor or management should contract an expert.
 - The auditor’s procedures in relation to the expert’s work.
 - Whether under certain circumstances the auditor’s report should refer to the expert.

The appendix contains a detailed list of matters to be considered as part of this project.

3. Scope of Project

The scope of the project is limited to the revision of ISA 620 in relation to the audit of historical financial information. It will not address issues related to using the work of an expert on other assurance engagements. Conforming amendments to the assurance framework and standard will be considered as appropriate; however, any implications would only be incidental.

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

A revision of ISA 620 may have conforming implications for other IAASB standards and practice statements.

(b) Consider Whether IT Requires Particular Consideration

IT experts are frequently used by auditors to perform risk assessment and further audit procedures, including obtaining understanding and testing of internal control. Auditors also use the work performed by IT experts at service organizations, and of internal auditors with IT expertise.

4. Indicate the Type of Material to Be Published

- Revision of ISA 620.
- Possible conforming amendments to other IAASB pronouncements.

5. Resources Required

TASK FORCE

It is recommended that the task force include representatives of the US ASB, CICA and other national standard setters that recently revised their related auditing standard. The task force should also include auditors with expertise in the audit of financial statements of entities in industries such as financial services, real estate, construction, or extractive industries, and in the use of experts on these audits. At least one member of the task force should have a strong IT technical auditing background.

STAFF

One IAASB staff member will provide staff support to the task force.

PROPOSED TIMELINE

Issues paper	March 2005
First read	June 2005
Exposure draft	December 2005

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

Sources of information that address the matter being proposed include:

NATIONAL STANDARDS - CANADA

- CICA Handbook Section 5049, “Use of Specialists in Assurance Engagements.”

NATIONAL STANDARDS - US

- 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.”
- Illustrative SAS No. XX, “Using an Outside Specialist to Assist in the Audit”
- Illustrative SAS No. XX, “Using the Work of Management’s Nonemployee Specialist”

INTERNATIONAL STANDARDS ON AUDITING

- International Framework for Assurance Engagements and ISAE 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.”
- ISA 220 (Revised), “Quality Control for Audits of Historical Financial Information.” Provides guidance on the supervision and review of assistants.
- ISA 300 (Revised), “Planning the Audit.”

OTHER PRONOUNCEMENTS

- “Use of Specialists in Assurance Engagements” published by the CICA in 1999 (research report).
- 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, Fair Values and Quality Control Task Force staff, noting issues identified.
- Former Revisions Subcommittee dossier.

7. Factors that May Add to Complexity or Length of Project

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

- 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	<u>Susan Jones, AICPA</u>	Date	<u>October 7, 2002</u>
Revised by	<u>Alta Prinsloo, IAASB</u>	Date	<u>March 3, 2003</u>
Revised by	<u>Alta Prinsloo, IAASB</u>	Date	<u>February 27, 2004</u>
Revised by	<u>Alta Prinsloo, IAASB</u>	Date	<u>September 29, 2004</u>

Appendix

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

Scope of ISA 620

- Whether it remains appropriate to limit ISA 620's applicability to the use of the work of an expert with a skill or knowledge in a field *other than* accounting or auditing.
- Whether ISA 620 should cover the use of an expert in all phases of an audit: in gathering audit evidence through audit procedures, be they risk assessment procedures, tests of control, or tests of detail.

Treatment of Experts Employed / Contracted by the Firm / Auditor

- Whether experts employed by the audit firm should be regarded as experts covered by ISA 620 or as members of the audit team covered by ISA 220 (Revised), "Quality Control for Audits of Historical Financial Information" and ISA 300, "Planning." The IFAC Code of Ethics for Professional Accountants and ISQC 1, ..., defines "engagement team" as "all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement." "Personnel" is defined as "partners and staff."
- Whether in some instances an expert contracted by the auditor effectively functions as a member of the engagement team and therefore should be excluded from the scope of ISA 620 and covered by ISA 220 (Revised) and ISA 300.
- Whether the auditor should evaluate the independence of an expert, who is contracted by the auditor but does not effectively function as a member of the engagement team.

Treatment of Client Experts / Employees with Specialized Skills and Knowledge

- Whether all employees of the client and the client's related parties and their employees should be subject to the same audit risk considerations and procedures and, as a result, entity employees with special skills or knowledge should be excluded from the scope of ISA 620.
- Whether, in the case of an expert contracted by the client, the auditor should conclude on the expert's objectivity, or rather assess the risk that the expert's objectivity was impaired and to develop an appropriate response to the assessed risk.
- Whether, in the case of an expert contracted by the client, the auditor should be required to evaluate whether the expert's findings are *reasonable* and reflected properly in the financial statements.

Mandatory Appointment of Experts

- Whether under certain circumstances the contracting of an expert by the auditor should be mandatory, not optional.
- Whether under certain circumstances management should contract an expert, and if

management fails to do so, whether the auditor should consider such failure as a scope limitation.

Auditor's Procedures in Relation to Expert and Experts' Work

- Whether the auditor should establish an understanding with an expert contracted by the auditor, and whether such understanding should be documented in an engagement letter or other audit documentation.
- Whether the auditor should be required to obtain an understanding of the work performed by an expert.
- Whether the auditor should obtain a description of the following from an expert contracted by the auditor: (a) assumptions used or evaluated and whether the expert considered them reasonable, (b) method(s) used to develop the finding, including why the method selected is considered appropriate for the client's circumstances, (c) where applicable, the results of test data, and (d) conclusions/findings reached.
- Whether ISA 620 should contain specific documentation requirements.

Auditor's Report

- Whether circumstances exist in which the expert should be or can be referred to in the auditor's report.

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 Compliance

COMMENTS

Signed Sylvia Barrett

Date November 2, 2004

Secretary to Developing Nations Permanent Task Force

COMMENTS

Signed Claire Egan

Date October 29, 2004

Secretary to Education

COMMENTS

Signed Claire Egan

Date October 29, 2004

Secretary to Ethics

COMMENTS

Signed Jan Munro

Date November 2, 2004

Secretary to IAASB

COMMENTS

Signed _____

Date _____

Secretary to PAIB

COMMENTS

Signed Robin Mathieson

Date November 2, 2004

Secretary to PSC

COMMENTS

Signed Matthew Bohun

Date October 22, 2004

Secretary to SMP Permanent Task Force

COMMENTS

General

This is highly relevant to SMPs since they are more likely than their larger counterparts to need to resort to the use of experts (at least when it comes to the audit of a like sized entity). Large practices typically have the necessary expertise in-house while SMPs need to buy it in. Hence, from an SMP perspective it is crucial that the standard does not impose too undue a burden.

Specific Points

1. Under **mandatory appointment of experts**, it is not clear what might be driving such a proposal and under what circumstances would it be considered necessary to mandate the use of an expert. This could have significant cost implications for SMPs.
2. On **auditor's procedures in relation to experts and experts' work**, the proposal talks about whether the auditor should be required to obtain an understanding of the work performed and assumptions used etc. Isn't this already the case?
3. In connection with the point made under **general** above regarding buying in expertise, the SMP PTF would not wish to see new proposals/requirements on using the work of experts that might prevent SMPs from seeking technical support from training consortia and the like.

Signed Paul Thompson

Date November 1, 2004

Secretary to TAC

COMMENTS

None.

Signed Victoria Rand

Date October 28, 2004

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