



**International Federation of Accountants**

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## Agenda Item

# 9

**Committee:** IAASB

**Meeting Location:** New York

**Meeting Date:** October 25-27, 2006

### Experts

#### Objective

To review a revised draft of ISA 620, “Using the Work of an Auditor’s Expert,” and approve it for publication as an exposure draft.

#### Task Force Members

- Josef Ferlings, Chair (IAASB member – Germany; supported by Wolfgang Böhm)
- Sukanta Dutt (IAASB member – Malaysia)
- Craig Crawford (IAASB member – USA)
- Greg Shields (IAASB Technical Adviser – Canada)
- Cláudio Castello Branco (nominated by INTOSAI – Brazil)
- Dale Gislason (nominated by IFAC’s SMP Committee – Canada)
- The Task Force also maintains active liaison with:
  - Jan Munro (IESBA – International Ethics Standards Board for Accountants)
  - Jim Milholland and Sam Gutterman (International Actuarial Association)

#### Background

The project proposal was approved by the IAASB in December 2004. An initial Issues Paper was reviewed by the IAASB in December 2005 (Cape Town), and a second Issues Paper plus a “first read” draft ISA was reviewed in July 2006 (Brussels). Since that time, the task force has held a one-day meeting, in conjunction with the September IAASB meeting, and a subsequent conference call.

#### Papers presented

A clean copy of the draft discussed at the July IAASB meeting is attached for reference, however a marked-up copy has not been presented. The extent of changes to the requirements section since the July meeting make a mark-up of the requirements of no practical use; and the IAASB did not review in detail the application material of the July draft, so a mark-up of the application material would also be of limited use.

### **Material Presented**

Agenda Item 9-A                      “Second read” draft revised ISA 620 - clean  
(Pages 2707 - 2722)

Agenda Item 9-B                      Draft discussed at the July IAASB meeting (Brussels)  
(Pages 2723 - 2740)

### **Action Requested**

The IAASB is asked to:

- Discuss the issues raised in the Appendix; and
- Approve the attached draft, amended as necessary, for publication as an exposure draft.

**Appendix****Using the Work of an Auditor's Expert - Issues****A. Definition of engagement team**

- A1. At the July meeting, the IAASB debated the task force's suggestion of differentiating between internal and external experts by excluding external experts from the definition of engagement team and, therefore, from ISQC 1 and the ISAs except ISA 620.
- A2. It was agreed "that ISA 620 should essentially treat internal and external experts in the same way, but that the extent to which the expert is subject to quality control procedures under ISQC 1 and ISA 220 would influence the nature, timing and extent of procedures the auditor will perform with respect to the expert's work. Also, while the IAASB was of the view that the definition of "engagement team" does not need to be changed for the purpose of ISQC 1 and the ISAs, it acknowledged that IESBA may need to change it for the purpose of the Code. The task force was, therefore, asked to continue liaising with the IESBA's independence task force and to consider how any change to the definition that IESBA may consider necessary for the Code would affect ISQC 1 and the ISAs. Mr Sylph agreed to draw this matter to the attention of IESBA and to report back on the priority it is receiving."

*Liaison with the Independence Task Force of the IESBA.*

- A3. The independence task force has prepared a draft revised Section 290 of the Code, which contains a revised definition of "engagement team." That draft will be reviewed by the IESBA at its meeting on 16-18 October. The conforming amendments to ISQC 1 and ISA 220 included on the final page of attached draft ISA are consistent with the definition proposed by the independence task force. The 620 task force have made a number of comments to IESBA staff on that definition, and think it likely that the definition will change before the revised Section 290 is approved for exposure by the IEASB.
- A4. A verbal report will be provided to the IAASB on the outcome of the 16-18 October IESBA meeting.

*Treatment of Internal and External Experts*

- A5. As agreed at the July meeting, the task force has amended the attached draft to treat internal and external experts in the same way, and to recognize the impact that quality control will have on the nature, timing and extent of audit procedures (paragraphs 7(c) and A11-A14).
- A5. In doing this, the task force has eliminated the need to use the term "engagement team" in the draft at all. That being the case, the 620 task force has suggested to the task force developing the clarified version of ISA 220 that it consider whether it is appropriate for the change in the definition of engagement team to be picked as part of the clarity revisions to ISA 220, rather than included as a conforming amendment to ISA 620.

**B. Principal evidence**

- B1. At the July meeting, the IAASB agreed to replace the concept of "principal evidence" that had been introduced in the draft presented at that meeting, with a "sliding scale" approach to

determining the nature, timing and extent of the auditor's procedures. The sliding scale has been implemented by inclusion of paragraph 7 in the attached draft.

### **C. Link with ISA 315**

#### *Management's need for expertise*

- C1. The attached draft does not deal with the risks of material misstatement due to management's need for expertise in preparing the financial statements; rather, as requested by the IAASB at the July meeting, the task force has reviewed ISA 315's coverage of this issue.
- C2. ISA 315 does not address this issue in a substantive way. The only relevant comment on expertise other than accounting expertise is as an examples of matters that the auditor may consider when obtaining an understanding of the entity's objectives, strategies and related business risks: "Industry developments (a potential related business risk might be, for example, that the entity does not have the personnel or expertise to deal with the changes in the industry)." This example does not, however, deal specifically with preparation of the financial statements.
- C3. The task force has included in the attached draft, two suggested conforming amendment to ISA 315 to address this matter.

#### *Using the work of management's expert*

- C4. As decided by the IAASB, the draft does not cover the auditor's use of work done by experts employed or engaged by management. This is stated explicitly in paragraph 1. The rationale for not dealing with this issue is that auditing the work of an expert employed or engaged by management is the same as auditing any other information presented by management and is, therefore, an ordinary part of evidence gathering that is covered by the other ISAs, in particular ISA 540 regarding estimates.
- C5. The task force has included a footnote to paragraph 1 that notes that parts of the ISA may be helpful when the auditor considers the work of a management expert, and has also included a similar thought at paragraph A9. The task force remains concerned, however, that without a requirement in the ISAs along the following lines, there may be a propensity for auditors to over-rely on the work on management experts: "When the work of a management expert is significant to a material class of transactions, account balance or disclosure, the auditor shall:
  - (a) Obtain an understanding of the field of expertise of that expert sufficient to evaluate the expert's work, and
  - (b) Evaluate the expert's work, including the relevance and reasonableness of the expert's findings and, when applicable:
    - (i) The reasonableness of significant assumptions and methods used by the expert; and
    - (ii) The completeness, relevance and accuracy of source data used by the expert".
- C6. The task force therefore seeks the views of the IAASB on whether such a requirement should be added to ISA 330, "The Auditor's Procedures in Responses to Assessed Risks."

**D. Objectivity and independence**

- D1. The draft discussed by the IAASB at its July meeting included the following requirement in addition to a requirement to evaluate the expert's objectivity: "When using the work of an auditor's external expert, the auditor shall obtain reasonable assurance that the expert has complied with relevant independence and other ethical requirements that apply to the expert."
- D2. Paragraph A21 describes objectivity as "bias, conflict of interest or the influence of others, and the effects these may have on the professional or business judgment of the auditor's expert." The task force is of the view that the expert's objectivity will always be a relevant factor for the auditor to consider when evaluating the adequacy of the expert's work as audit evidence, and has retained evaluation of the expert's objectivity as a requirement (paragraph 10).
- D3. The task force views objectivity as being different from independence however – compliance with independence rules are seen as a means for the expert to preserve and demonstrate objectivity. While compliance with specific independence and other ethical requirements does not *necessarily* affect the quality of evidence obtained by the expert, knowledge of the expert's compliance with such requirements is likely to assist the auditor in evaluating the expert's objectivity (and capabilities and competence), which is recognized in paragraph A19.

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