

Revision of ISA 620 “Using the Work of an Expert” – Draft Outline***IMPORTANT NOTE TO IAASB***

This Draft Outline is only a working document at the moment. It is included here to give the Board a general indication of the Task Force’s current thinking about the flow and coverage of the revised ISA. It is subject to change based on the IAASB’s decisions on matters raised in the Issues Paper. Further, the wording used here is not intended to be read as wording that will be used in the ISA itself, and is mostly in abbreviated or dot point form only.

Introduction**Scope of this ISA**

1. This International Standard on Auditing (ISA) deals with using the work of an expert in an audit of financial statements.
2. This ISA is not applicable to experts working for 3rd parties (i.e. experts who are neither employed nor contracted by either the auditor or the entity) although parts of it may be helpful when considering such work¹. This ISA applies regardless of when the expert is used, e.g., whether the expert is used for planning, for tests of internal control or for substantive work.

Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Objective to Be Achieved

4. In relation to this ISA, the objective of the auditor is to determine when it is appropriate to use the work of an expert and, when using such work, to be satisfied that risk has been reduced to an acceptably low level.

Definitions

5. The following term is introduced in this ISA.
 - (a) Expert – a person possessing expertise in a particular field that is relevant to the engagement, and is not possessed by the auditor.²

¹ For 3rd party experts, the auditor should consider whether their report is relevant to the circumstances of the engagement and that it is appropriate. The auditor exercises caution because: (i) the work is not specifically designed for the purpose of the audit, and (ii) there is no ongoing relationship between the expert and either the entity or the auditor.

² (a) Parts of this ISA may be helpful when the auditor consults a person with expertise also possessed by the auditor.
(b) This definition is for the purpose of the ISA, and is not related to any definition of an expert with respect to legal matters that may be used in a particular jurisdiction.

- (b) Expertise – skill, knowledge and experience.

Requirements

6. The auditor shall, at a minimum, take responsibility for engagement acceptance, planning (including identification of key risks resulting from management’s use of the work of a specialist expertise in preparing the financial statements, and the audit approach to respond to them), and the formation of the overall conclusion.
7. In planning the audit, the auditor shall determine what expertise is required, including whether specialized expertise is required to obtain sufficient appropriate audit evidence. The auditor shall be satisfied that those persons carrying out the engagement collectively possess the requisite expertise.
8. In determining the nature, timing and extent of procedures to respond to the risks of material misstatements, the auditor shall consider the risks of using the work of an expert. This will determine the context for the following requirements.
9. The auditor shall have sufficient understanding of the expert’s work to determine the scope of that work (when that is appropriate), and to evaluate whether it is adequate for the purposes of the audit.
10. When the work of the expert is significant, the auditor shall determine the scope of the expert’s work in the context of the audit plan, and shall be satisfied that there is an appropriate understanding between the auditor and the expert on their respective roles and responsibilities.
11. The auditor shall evaluate the expertise of the expert to achieve the relevant audit objectives.
12. The auditor shall evaluate the independence and objectivity of the expert in the context of the relevant audit objectives.
13. The auditor shall evaluate, in the context of the relevant audit objectives:
 - the expert’s assumptions, methods and findings,
 - the reliability of source data used by the expert
 - the results of the expert's work in the light of the auditor's overall knowledge of the business and of the results of other audit procedures.

Application Material

A. Using an expert

- A1. In certain circumstances, the auditor needs to use on the work of a person(s) who has expertise that the auditor does not. However, the auditor does so with an attitude of professional skepticism, and:
 - Determines the scope of the auditor’s work;
 - Evaluates the expert’s expertise, independence and objectivity; and

- Evaluates the expert’s work.

The nature, timing and extent of the auditor’s procedures required to do this will depend on the significance of the experts work to the engagement, and the risk associated with that work.

- A2. Examples of use of experts that may be needed in certain circumstances include: *(provide examples, including experts in specialist accounting and auditing matters, tax experts, IT experts, and forensic auditors).*
- A3. The responsibilities of an expert include carrying out their work objectively, maintaining confidentiality, exercising due skill and care and follow the standards of their profession, when applicable.

B. Range of relationships

- B1. Where the expert fits in the following matrix will affect the risks associated with the expert’s work. Discuss the implications of this, in particular the link with ISQC 1 and ISA 220, which apply in cells A and B; and the lack of independence in cell C.

		Is the expert ³ :	
		an employee?	on a contractual basis?
Is the expert working for:	the auditor?	A	B
	the entity?	C	D

- B2. Discuss the implications of the expert’s degree of integration with the work of the engagement team, e.g. the nature, timing and extent of their involvement in planning the engagement, and of the 2-way communication with the auditor and other members of the team, e.g.:
- The more significant the matter on which the expert’s input is required, the more closely integrated, and independent, the expert should be.
 - The more closely integrated the expert is, the greater will be the auditor’s supervision and review in accordance with ISQC 1/ISA 220. Thus, the more integrated the expert is, the more the nature, timing and/or extent of tailored procedures pursuant to this ISA, can be reduced.
 - Experts in cells C and D cannot be considered to be integrated with the engagement team.

³ There are other categories of expert besides employee and contractor, which may have elements of both, e.g.:

- Secondees, and in the public sector “invited” experts.
- Statutory appointees who are neither employees nor contractors.

In these cases, the principles of this ISA apply. Relevant considerations include: to whom the expert owes their allegiance, who has the capacity to direct/control their work, and the nature of the relationship with the auditor and the entity.

C. Engagement acceptance and planning

Determining the need for an expert

- C1. In determining whether to use an expert, relevant considerations include:
- Risk (including complexity and pervasiveness of a matter).
 - Materiality
 - Availability of other evidence e.g. the uncertainty regarding the outcome of a legal matter may be reduced through a precedent set in a similar case, reducing the need for expert involvement.
- C2. Whether an expert will be needed or not is often determined at the engagement acceptance stage.

Involving the expert in planning the engagement

- C3. Where the expert's work is expected to have a significant effect on the conduct of the audit, the expert is ordinarily involved in planning the audit.

D. Evaluating the expert's competence

- D1. Consider, e.g.: past dealings with the expert, and their qualifications, professional memberships, experience, reputation etc.
- D2. The auditor can rely on ISQC 1 and ISA 200 procedures if in cell A and (but often to a lesser extent) if in cell B.

E. Evaluating the expert's independence and objectivity

- E1. Using a risks and safeguards approach, consider, e.g.: obvious conflicts of interest, current or previous employment by the entity, a financial interest in the entity, professional and statutory responsibilities, the degree of management involvement in the work of the expert, political allegiances (in the public sector) etc.
- E2. Employees of the auditor (cell A), and the auditor's contractors (cell B) whose work is fully integrated with the rest of the engagement team, should be fully independent. The auditor can rely on ISQC 1 and ISA 200 procedures in cell A and (but often to a lesser extent) in cell B.
- E3. Employees of the entity (cell C) are not independent.
- E4. For others [i.e. the auditor's contractors (cell B) whose work is not fully integrated with the rest of the engagement team, and the entity's contractors (cell D)], there are degrees of independence.
- E5. The more independent/objective the expert, the more reliable the evidence and the less additional corroborating evidence is needed.
- E6. If the expert's independence/objectivity is too low, the auditor may need to use another

expert. If the relevant class of assets, account balance or assertion is significant and the expert's work is critical to it, a fully independent expert will be needed.

F. The auditor's understanding of the expert's work

- F1. The auditor considers the adequacy of their understanding of the expert's field before the expert is engaged, during the expert's engagement, and when integration the expert's findings with other audit evidence
- F2. The scope of the expert's work should be adequate for the purpose of the audit. Consider: terms of engagement, objectives of the expert's work, the expert's access to the entity's records etc.⁴
- F3. If the expert is contracted by the auditor, the terms of engagement should include, e.g.: the nature, objectives and scope of the engagement, the application of relevant accounting and auditing standards, other professional standards the expert will follow, confidentiality, and expectations regarding the expert's documentation [Elements of this may be elevated to a Requirement].⁵
- F4. Considerations include: reading the expert's report, any general training the auditor has had in the expert's field, discussion with the expert, reading professional literature, discussion with other experts, etc.
- F5. Two-way communication between the expert and the auditor, and other members of the team, will be important [possibly a Requirement], to ensure:
- The expert knows where their work fits in in terms of relevant risks and materiality, and has an adequate understanding of auditing concepts; and
 - So the auditor gets an adequate understanding of how the expert did their work, their knowledge of audit issues, etc.

G. Evaluating the expert's work

- G1. The significance of the matter and the risk of error in the expert's work (including which cell the expert is in, and where the expert is in cell C or D, the strength of internal controls related to the expert's work) will determine the nature, timing and extent of procedures.
- G2. Consider enquiry and analytical procedures, tests of source data, corroborative procedures, review of the expert's working papers, use of a second expert etc
- G3. Two-way communication will be important here also (see F5 above).

⁴ This section should be linked to A3 (the responsibilities of the expert)

⁵ This section could be linked to an Appendix that notes matters considered for inclusion in a contract with the expert where applicable.

H. Other

- H1. Documentation requirements: because of the wide scope of the proposed ISA, in particular given that it includes assurance experts, experts employed by the firm and experts employed by the entity, it will be important to ensure that the documentation requirements are limited to experts where there is a significant risk. For example, it would be unreasonable to expect the auditor:
- To document an evaluation of the expertise and objectivity of the many entity employees who have a specialty the auditor doesn't, which they brought to bear in compiling the financial statements.
 - To re-document matters already required to be done (and documented) by ISQC 1/ISA 220.
- H2. Reference to the expert in the auditor's report.
- Conflict between:
 - The current ISA 620, which does not allow reference in unmodified reports and
 - The public sector in some countries, where reference to experts is a requirement for all audit reports.
 - The current ISA 620 requires the auditor to seek permission of the expert before citing them in the report. Further guidance on this might be helpful.