

Revision of ISA 620 “Using the Work of an Expert” – Issues Paper

A. General approach

- A1. A key aspect of the approach recommended by the Task Force, which pervades the Draft Outline presented and a number of the issues discussed below, is that it is “risk-based”, rather than “rules-driven”.
- A2. Fundamentally, the Task Force considers that in reducing risk to an acceptably low level, the auditor needs to consider the risks associated with using an expert in combination with the other risk factors that affect the relevant class of transactions, account balance or assertion. While the ISA will set some “rules”, it will mainly comprise guidance to assist the auditor to assess the risks associated with using an expert, and integrate that assessment with the assessment of other risks.
- A3. An alternative approach, not favoured by the Task Force, would be for the ISA to set fixed criteria for categorizing experts (e.g., whether they are part of the engagement team, whether they are employees or contractors, and whether they work for the entity or the auditor), and to then specify procedures to be applied depending on the resultant categorization.
- A4. Underlying the Task Force’s support for a risk-based approach is that experts are now used in a wide variety of circumstances. These circumstances can range, e.g., from a discrete question asked of an external lawyer who needs little or no knowledge of the audit other than the facts of the particular legal question being asked, to an actuary embedded in the audit team who needs to have as comprehensive an understanding of the engagement circumstances as other team members. While categorization and rules may be useful in these particular examples, they are less functional for the myriad of circumstances in between.
- A5. The framework the Task Force intends to establish in the revised ISA 620 will see the nature, timing and extent of procedures regarding the work of an expert dependent upon:
- (a) The effect on the assessed risks of material misstatement of management’s need to use specialized expertise in preparing the financial statements ; and
 - (b) The risks that the auditor needs to address when using the work of an expert as audit evidence. Risk factors specifically related to the work of the expert (some of which will have a counterbalancing effect on others) include:
 - The expert’s degree of independence and objectivity.
 - The expert’s competence in their own field of expertise.
 - The expert’s knowledge and experience with auditing (e.g. would the expert recognize fraud risk factors).
 - The degree to which the expert is integrated with the audit team.
 - The auditor’s, and the audit team’s, knowledge and experience with the expert’s field of expertise.

- The nature and extent of “background” quality control processes to which the expert is subjected, either by the auditor (ISQC 1/ISA 220) or otherwise (e.g. by the expert’s professional body).
- A6. Each of the expert-specific factors is a variable that has a range of “values,” rather than a yes/no answer that would lend itself to simple categorization. The auditor needs to apply professional judgment to consider how these variables interact, both with each other and with the other risks that affect the relevant class of transactions, account balance or assertion, to determine the risks associated with using an expert and the procedures necessary to respond to those risks.

Recommendation

The ISA should take a “risk-based”, rather than “rules-driven” approach

B “Expert” or “specialist”?

- B1. The current ISA 620 uses the term “expert”. CICA 5049 and the US Recommendations both use the term “specialist,” although the word “expert” is used at CICA 5049.19 when identifying particular specialists, such as “IT experts” and “tax experts,” and CICA.08 labels as “experts” people who are expert in particular assurance techniques such as sampling. CICA 5049 also uses the term “expertise” extensively, whereas the US Recommendations use “specialized skill or knowledge” instead of expertise.
- B2. While the Task Force does not have a strong preference for either term, and recognizes that in some languages both words would be translated the same, it considers “expert” to be the better term because:
- (a) The term “expert” tends to imply that the individual has some form of external recognition for their level of expertise in their chosen specialty;
 - (b) An individual can choose to specialize in a field and may therefore rightly be called a specialist, but that of itself does not make the individual an expert in that field; and
 - (c) Changing from the current term “expert” to “specialist” would require conforming amendments to a dozen other IAASB Standards/Practice Statements, which seems unnecessary. While “expert” may impart a particular legal meaning in some jurisdictions, this does not seem to have caused any problems in the past.

Recommendation

Retain the term “expert.”

- C Should the revised ISA include or exclude experts in (a) particular areas of accounting and tax; and (b) particular assurance issues and techniques, such as statistical sampling or IT auditing?**

Accounting and tax

- C1. The current ISA 620 specifically excludes experts in accounting. It is silent on tax experts.
- C2. The US Recommendation on Outside Experts excludes experts in accounting and tax, saying:
The auditor’s education, training, and experience enable him or her to be knowledgeable concerning auditing, accounting, and tax matters and to be competent to perform the audit and to assess the application of generally accepted accounting principles and the presentation of accounting and tax matters in the financial statements.
- C3. However, the US Recommendation on Management Experts, includes experts in accounting (and by implication, tax), saying:
Generally, the specialist’s skill or knowledge is in a field other than accounting; however, in certain situations, the specialized skill or knowledge may be in specialized areas within the field of accounting. For example, determining the fair value of, or accounting for, certain types of derivative financial instruments might require specialized skills or knowledge because of the complexity of the accounting principles. (Paragraph .02)
- C4. CICA 5049 does not specifically mention experts in accounting, but it does use tax experts as an example of the type of expert that may be used.
- C5. Whether or not to include experts in accounting and tax raises the question of what expertise can be assumed of the auditor. As noted in C2 above, the ASB in their Recommendation on Outside Experts, assumes that the auditor is competent in accounting and tax matters. However, in their Recommendation on Management Experts, they recognize that the auditor may not be an expert in all specialist accounting and tax matters.
- C6. With the fields of accounting and tax becoming ever more complex, the Task Force considers it is reasonable to assume that on any engagement, there may be particular areas of accounting and tax in which an auditor may not possess expertise. Accounting examples are given in the quoted text in C3 above, and examples of tax issues where an auditor, particularly of a multinational entity, needs to seek specialized expertise abound. In these cases, the Task Force considers that the ISA should apply.
- C7. The Task Force considered differentiating on this issue, in the way the US Recommendations have, between “outside experts” and “management experts,” and then having different “rules” for each. That approach is, however, inconsistent with the general approach recommended by the Task Force (see Section A above).

Recommendation

Specifically include experts in particular areas of accounting and tax.

Assurance issues and techniques

- C8. The current ISA 620 and the relevant US Recommendation do not address this matter specifically. They do, however, exclude experts in auditing and this, along with the examples given of when an expert would be used and other text, implies that they do not intend to cover experts in particular assurance issues and techniques.

C9. CICA 5049 specifically excludes experts in particular assurance techniques, saying:

... Practitioners may also use a specialist who is an expert in particular assurance techniques such as sampling, analytical techniques or information technology auditing. Some of the guidance may apply to experts in assurance. However, since such experts will be trained and experienced in assurance techniques, the practitioner may be less concerned about the expert's understanding of his or her role in the engagement. ... (Paragraph .08)

C10. Task Force agrees that the auditor “may be less concerned.” Under the general approach outlined in Section A above, this would equate to a lower risk associated with using the work of the expert. It does not, however, entirely remove that risk. The Task Force therefore considers that the auditor’s use of experts in particular assurance issues and techniques should be subject to the same considerations as other experts.

C11. It might initially be thought that this makes the ISA applicable to all members of an audit team. However, the definition of “expert” includes only those persons with an expertise that is not possessed by the auditor (see paragraph 5 (a) of the Draft Outline). Therefore, audit “generalists” would not be included because a competent auditor must have expertise in general auditing techniques. Including experts in assurance techniques will only apply to the work of experts that have a particular specialization beyond that of the auditor. In such circumstances, it is reasonable to expect the auditor to consider the risks of using the expert.

Recommendation

Include experts in particular assurance issues and techniques.

D Should the revised ISA include or exclude expert employees of the entity?

D1. Both the current ISA 620 and CICA 5049 apply when the expert is an employee of the entity.

D2. The US Recommendation on Management Experts says: “The guidance in this Statement does not apply when the auditor uses the work of an employee of the entity who has specialized skills or knowledge. The work of that employee is subject to the same audit risk considerations and procedures as the work of other entity employees.”

D3. While agreeing that the work of an expert employed by the entity “is subject to the same audit risk considerations as the work of other entity employees”, the Task Force also considers that the work of an expert employed by the entity is subject to the same audit risk considerations as the work of *other experts*. The Task Force therefore considers that the ISA should apply when the auditor uses the work of an expert employed by the entity.

D4. Because the definition of expert is quite broad, this inclusion potentially brings into consideration the work of numerous employees of the entity. For example, one might say that an accounts receivable clerk who calculates the provision for doubtful debts based not only on an aged debtors listing, but also on their individual knowledge of the payment habits of individual debtors on that listing, applies an expertise not possessed by the auditor. While this may be true, the risks associated specifically with using the work of such an “expert” will, often, be relatively low and the procedures in response to those risks required by the ISA will

not be additional to those already performed in such circumstances by a competent auditor. (The Task Force notes that given the potentially broad reach of this ISA in this respect, the performance and documentation requirements of the ISA will need to be carefully worded so as not to imply that the auditor should perform and document a full consideration of the competence, independence etc of, e.g. the accounts receivable clerk, in ordinary circumstances).

- D5. When the expert is employed by the entity, the expert will, necessarily, not be independent (although they may be objective). The ISA will need to recognize this, and will require the use of an outside expert when an expert employed by the entity plays a major role in developing individually material content for the financial statements (e.g. an employee actuary calculating balances for an insurance company).

Recommendation

Specifically include guidance on how the nature, timing and extent of the auditor's procedures is influenced by the existence of experts who are employees of the entity.

E Should the revised ISA include or exclude experts employed by the firm, and contracted experts who function as part of the engagement team?

- E1. The current ISA 620 does not distinguish between experts who function as part of the engagement team and those who do not. It does, however, specifically apply to experts employed by the firm, but notes:

When the auditor uses the work of an expert employed by the audit firm, the auditor will be able to rely on the firm's systems for recruitment and training that determine that expert's capabilities and competence, as explained in ISA 220, "Quality Control for Audits of Historical Financial Information" instead of needing to evaluate them for each audit engagement. (Paragraph 5)

- E2. CICA 5049 applies to experts who function as part of the engagement team, including experts employed by the firm, but notes in relation to the latter:

Typically in this case, the practitioner has assurance concerning the specialist's expertise, competence and integrity, and independence through the firm's quality control processes. Nevertheless, the practitioner cannot assume that such specialist will sufficiently understand his or her role in the engagement. The practitioner needs to ensure that the specialist understands his or her role in the engagement and to supervise the specialist and appropriately assess his or her work and findings. Usually, specialists who are members of the practitioner's firm work as part of the assurance team, although they may operate at arm's length and issue a formal report. (Paragraph 17)

- E3. The US Recommendation on Outside Experts notes:

Ordinarily, audit evidence is more competent and reliable when obtained by a specialist who functions as a member of the engagement team. This is because a specialist who functions as a member of the engagement team is subject to the supervision and review requirements of SAS No. 22 (Planning and Supervision) and to certain of the auditor's quality control policies and procedures, such as independence and audit documentation. (Paragraph 7)

- E4. The US Recommendation does not apply to experts employed by the firm because they "must be considered a member of the engagement team". For contracted experts, the US

Recommendation requires the auditor to make an explicit determination about whether they are effectively functioning as a member of the engagement team, and:

- If so, the expert “should comply with the firm’s quality control standards and the auditor’s responsibilities with respect to that person are equivalent to those for other members of the engagement team”.
- If not, the auditor applies the Recommendation on Outside Experts, which essentially requires the auditor to evaluate the competence and objectivity of the expert, and to understand and evaluate the expert’s work.

- E5. ISQC 1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,” and ISA 220 (Revised) “Quality Control for Audits of Historical Financial Information” include both employee and contracted experts as part of the engagement team, which it defines as “all personnel performing an engagement, including any experts contracted by the firm in connection with that engagement”.
- E6. Therefore, the distinction drawn in the US Recommendation is not directly relevant to the IAASB’s literature because both employee experts and experts contracted by the firm are subject to supervision, review and other quality control policies and procedures. Those policies and procedures would ordinarily cater differently for those experts whose work is totally integrated with that of the auditor versus, e.g., those who merely provide a report on a specific matter, such as a valuation.
- E7. The Task Force considers that there are degrees to which experts are integrated with the engagement team, rather than there being only 2 options, i.e.: part of the team or not as implied by the US Recommendations, and that the revised ISA 620 should cover the work of experts regardless of how integrated they are. The revised ISA will include the degree of integration of the expert with the engagement team (and therefore the extent of reliance on ISQC 1 and ISA 200 procedures) as a factor in determining the nature, timing and extent of additional procedures in response to the risk of using the expert’s work.

Recommendation

Specifically include experts employed by the firm, and contracted experts who function as part of the engagement team.

Independence implications

- E8. It is understood that one of the drivers for the US Recommendation’s position that the auditor must make an explicit determination whether or not a contracted expert is part of the engagement team, is because of the independence implications of that determination. If the expert is part of the team, the same independence requirements apply to that expert as apply to employees on the team.
- E9. The IFAC Code of Ethics currently defines engagement team as “All personnel performing an engagement, including any experts contracted by the firm in connection with that

engagement.” One, although not the only, interpretation of this is that there is no determination to be made in respect of the IFAC Code because all experts are part of the team.

Recommendation

To the extent possible, the ISA will not offer interpretations of ethical (or legal) matters, which are likely to vary from jurisdiction to jurisdiction. The independence consequences of the Code for experts are, however, being explored with the Ethics Committee staff.

F Should the revised ISA include or exclude experts engaged by a third party?

- F1. The current ISA 620 and the US Recommendations do not mention experts engaged by a third party to issue:
- (a) a public report, e.g. an environmental impact study issued by an NGO, a report on economic statistics issued a government agency, or a newspaper article written by an expert; or
 - (b) a report that is otherwise available to the auditor but was not specifically commissioned for either the entity or the audit, e.g. a general opinion from a tax expert about a scheme the entity has entered into, or an investment analyst’s report available on a subscription basis.
- F2. CICA 5049, at footnote 3, says: “This Section does not specifically address this situation, because it is primarily an issue related to the appropriateness of audit evidence. However, a practitioner may find some of the guidance in this Section useful in such situations”.
- F3. The Task Force agrees with the position articulated in the CICA Standard. In particular, the revised ISA will be based on an assumption that the auditor and the expert have an active, mutual relationship, which is not the case with 3rd party experts.

Recommendation

The revised ISA should specifically exclude third party experts.

G Should the revised ISA apply to the use of experts in all phases of the audit?

- G1. Although the current ISA 620.06, notes that experts are used in “obtaining an understanding of the entity and performing further procedures in response to assessed risks,” it:
- Does not mention using experts in relation to tests of control;
 - Does not mention the use of IT experts; and
 - Provides examples that relate only to the measurement of account balances and the interpretation of legal matters.

Overall, the current ISA implies that experts are used almost exclusively in substantive testing.

- G2. The relevant US Recommendation explicitly applies to the use of experts to design and perform tests of controls in specialized areas. CICA 5049 specifically acknowledges use of IT experts with respect to complex aspects of information systems.

- G3. It is probably more common in practice now than it was when extant ISA 620 was issued, for experts to be involved throughout the audit, from initial planning through to the drawing of final conclusions. The Task Force thinks it is consistent with modern practice, and consistent with the risk-based approach recommended for the revised ISA, for it to cover the auditor's use of an expert at whatever stage the expert's work is used.

Recommendation

The revised ISA should apply regardless of the phase of the audit to which the expert's work applies.

- H. Should the revised ISA address the question of what is meant by a “sufficient” level of involvement in the audit?**
- H1. CICA 5049 requires that “Before accepting an assurance engagement, the practitioner should consider whether his or her involvement in the engagement and understanding of the subject matter is sufficient to enable the practitioner to discharge his or her responsibilities.”
- H2. CICA 5049 applies to all assurance engagements. While that part of the above requirement related to “understanding of the subject matter” would likely be relevant if the document being prepared by the IAASB were to be an ISAE, it is not relevant to an ISA (i.e., the auditor can be assumed to have an understanding of financial statement preparation and presentation).
- H3. That part of the above requirement that relates to “involvement in the engagement”, however, could be relevant to a financial statement audit. For example, an auditor might “sub-contract” much of the audit work, e.g., when the entity is in a very specialized industry, or when much of the content of the financial statements is generated by a highly sophisticated IT system. The system of sub-contracting is not uncommon in the public sector in some jurisdictions, whereby the Auditor-General, or equivalent, relies almost entirely on work performed by a private sector firm. However, this is different from contracting out that work because it involves a specialized field in which the auditor does not have expertise.
- H4. The question of whether the auditor has sufficient involvement is being addressed in the context of group financial statements as part of the project to revise ISA 600, but is not addressed in the extant ISA 620 in the context of experts.
- H5. The IFAC Code of Ethics states that: “A professional accountant in public practice should agree to provide only those services that the professional accountant in public practice is competent to perform”. It does not, however, require a specified level of involvement by the practitioner, and acknowledges the potential to use experts.
- H6. The Assurance Framework, which like CICA 5049 applies to broader assurance engagements also, states that “*the practitioner is satisfied that those persons carrying out the engagement collectively possess the requisite skills and knowledge, and that the practitioner has an adequate level of involvement in the engagement and understanding of the work for which any expert is used*” (emphasis added).

Recommendation

The revised ISA should require the auditor to take responsibility for, at a minimum, engagement acceptance, planning (including identification of key risks and the audit approach to respond to them), and the formation of the overall conclusion.

J. Conforming amendments

J1. The IFAC Code states in respect of Professional Appointments:

When a professional accountant in public practice intends to rely on the advice or work of an expert, the professional accountant in public practice should evaluate whether such reliance is warranted. The professional accountant in public practice should consider factors such as reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

J2. Although this statement applies to a broader range of engagements than financial statement audits, there may be an opportunity to synchronize the wording used in the Code with that in the revised ISA 620. This will be investigated as the project develops.

Recommendation

The Task Force will liaise with the Ethics Committee staff regarding potential conforming amendments.

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