

*Proposed Revised and Redrafted International  
Standard on Auditing*

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ISA 620, Using the Work of an  
Auditor's Expert

*Conforming Amendments*

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Proposed ISA 500 (Redrafted),  
Considering the Relevance and  
Reliability of Audit Evidence



## REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft of proposed International Standard on Auditing (ISA) 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert" in September 2007 for publication. The proposed ISA may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by e-mail, so that they will be received by **February 15, 2008**. All comments will be considered a matter of public record. Comments should be addressed to:

International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017 USA

Comments should be emailed to [Edcomments@ifac.org](mailto:Edcomments@ifac.org). They may also be faxed to +1-212-286-9570 or mailed to the above address.

Copies of the exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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## EXPLANATORY MEMORANDUM

### Introduction

This memorandum provides background to, and an explanation of, the proposed International Standard on Auditing (ISA) 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert.” The International Auditing and Assurance Standards Board (IAASB) approved the proposed ISA in September 2007 for exposure.

### Background

The IAASB commenced this project in December 2004 in response to developments that indicated a need to revise extant ISA 620, “Using the Work of an Expert,” including:

- (a) The recent updating of corresponding national auditing standards in a number of jurisdictions;
- (b) A concern that the extant ISA 620 mainly focuses on the use of experts with respect to substantive procedures regarding the measurement of account balances, whereas experts may be used for other purposes during the audit, for example, to assist in identifying and assessing the risks of material misstatement; and
- (c) The possibility that the wider use of fair value accounting may require more frequent use of experts by the auditor.

During the project, the IAASB considered matters, including whether the auditor’s report should refer to the expert, and how the nature, timing and extent of audit procedures varies depending on such matters as: the nature of, and risks of material misstatement in, the matter to which the expert’s work relates; the significance of the expert’s work in the context of the audit; the auditor’s knowledge of and experience with previous work performed by the expert; and whether the expert is subject to the auditor’s firm’s quality control policies and procedures.

The IAASB believes that the proposed ISA will enhance the consistency of auditor performance in an audit of financial statements through more specific requirements and expanded guidance.

### Significant Matters

#### Definition of Engagement Team

As noted in the explanatory memorandum accompanying the exposure draft of [proposed] ISA 220 (Redrafted) and [proposed] ISQC 1 (Redrafted),<sup>1</sup> the IESBA<sup>2</sup> issued two exposure drafts<sup>3</sup> in

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<sup>1</sup> [Proposed] ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements” and [proposed] International Standard on Quality Control (ISQC) 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,” July 2007.

<sup>2</sup> The International Ethics Standards Board for Accountants of IFAC.

<sup>3</sup> Exposure drafts of Section 290, “Independence—Audit and Review Engagements” and Section 291, “Independence—Other Assurance Engagements” of the *Code of Ethics for Professional Accountants*, December 2006.

December 2006 that included a proposed definition of “engagement team.” The IESBA is currently in the process of considering comments received on its exposure drafts, and the IAASB has consulted the IESBA on the direction that it may take in finalizing the definition of “engagement team.” The definition in [proposed] ISA 220 (Redrafted) and [proposed] ISQC 1 (Redrafted) differs from that in the December IESBA exposure drafts, but reflects what the IAASB believes is currently being considered by the IESBA.

The primary difference between the two definitions is that the definition in [proposed] ISA 220 (Redrafted) and [proposed] ISQC 1 (Redrafted) specifically excludes “an auditor’s external expert” from the engagement team. “An auditor’s external expert” is defined in [proposed] ISA 620 (Revised and Redrafted) as “an auditor’s expert who is engaged, not employed, by the auditor. An auditor’s external expert is not a member of the engagement team.”<sup>4</sup>

The IAASB believes it is appropriate to exclude an auditor’s external expert from the definition of “engagement team” in [proposed] ISA 220 (Redrafted) and [proposed] ISQC 1 (Redrafted) because it would be impractical to expect auditor’s external experts to be subject to all the quality control policies and procedures the firm applies with respect to its partners and staff. Similarly, the IAASB believes it would be impractical to expect auditor’s external experts to be subject to all the independence requirements of the [proposed] Code, which is written for application to accountants and accounting firms. If auditor’s external experts were included in the definition, the IAASB considers that this would create a significant barrier to the necessary use of experts in appropriate cases.

In drafting [proposed] ISA 620 (Revised and Redrafted) the IAASB has allowed for this important difference between the auditor’s internal experts (who are members of the engagement team) and external experts. Consequently, it is proposed to require the auditor to take particular steps to evaluate whether an auditor’s expert has the necessary objectivity for the purposes of the audit,<sup>5</sup> Additionally, in the case of an auditor’s external expert further emphasis is placed on the instructions given to the expert and other aspects of the relationship, since the external expert falls outside the audit firm’s quality controls.

### **Management’s Experts**

Extant ISA 620 deals with both an auditor’s expert (i.e., an expert employed or engaged by the auditor) and a management’s expert (i.e., an expert employed or engaged by the entity). However, the auditor’s use of work performed by these two types of expert fundamentally differs and, although some of the related audit considerations are similar, the IAASB considers that it is necessary to draw a clearer distinction between the two. [Proposed] ISA 620 (Revised and Redrafted) now deals exclusively with considerations relevant to using the work of an auditor’s expert. Material dealing with the work of a management’s expert is presented in the conforming amendments to [proposed] ISA 500 (Redrafted).<sup>6</sup>

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<sup>4</sup> [Proposed] ISA 620 (Revised and Redrafted), paragraph 6(d); see also paragraph A8.

<sup>5</sup> [[Proposed] ISA 620 (Revised and Redrafted), paragraphs 9 and A16-A17.

<sup>6</sup> [Proposed] ISA 500 (Redrafted) “Considering the Relevance and Reliability of Audit Evidence.”

## **Specialists in Areas of Accounting and Auditing**

Consistent with extant ISA 620, the definition of “expert” in [proposed] ISA 620 (Revised and Redrafted) excludes persons or organizations possessing expertise in accounting or auditing. The IAASB is conscious of the fact that the work of specialists in particular areas of accounting (e.g., accounting for complex financial instruments) or auditing (e.g., auditing sophisticated IT systems) is used in many audits, and that considerations relevant to using the work of such specialists may often be similar to those relevant to using the work of an auditor’s expert. However, expertise in accounting and auditing is a fundamental requirement for all auditors. Such expertise has therefore been excluded from the definition of “expert” since it would normally be expected that an auditor accepting an engagement would possess any required specialist accounting and auditing expertise.

Similarly, with respect to the conforming amendments to [proposed] ISA 500 (Redrafted), the definition of “management’s expert” excludes persons or organizations possessing expertise in accounting.

The IAASB debated whether a person with expertise in taxation should be included in the definition and decided that when the expertise is in relation to tax compliance issues, the person should be considered an expert. When, however, the expertise is in relation to the accounting implications of taxation, the person would not be considered an expert for the purposes of the ISA as this constitutes a specialist area of accounting expertise. Similar distinctions might be made between expertise in complex modeling for valuation purposes and expertise in accounting for financial instruments.

## **Effective Date**

The current IAASB project timetable envisages that all ISAs will have been revised and redrafted, or redrafted only, by late 2008. The IAASB has agreed that the complete set of ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2009. The IAASB believes that it is in the interest of auditors and others who use the ISAs that the standards should be released as soon as they are approved so as to facilitate their implementation.

## **Guide for Respondents**

The IAASB welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

## **Request for Specific Comments**

The IAASB would welcome views on the following:

1. The proposal that proposed ISA 620 (Revised and Redrafted) deal exclusively with considerations relevant to using the work of an auditor’s expert, and accordingly material dealing with the work of management’s expert be expanded and moved to [proposed] ISA 500 (Redrafted).

2. The proposal that the definition of “expert” in proposed ISA 620 (Revised and Redrafted) excludes persons or organizations possessing expertise in accounting or auditing, for the reasons explained on page 6 above.

### **Request for Comments on the Application of the Clarity Drafting Conventions**

In addition to the matters referred to above, the IAASB is seeking comments on the application of the clarity drafting conventions. Respondents are asked to consider whether the objectives for the proposed ISA are appropriate, and whether the proposed requirements are appropriate responses to those objectives.

### **Comments on Other Matters**

Recognizing that the final ISA will apply to audits of all sizes and in all sectors of the economy, the IAASB is also interested in comments on matters set out below.

- *Special Considerations in the Audit of Small Entities*—Respondents are asked to comment whether, in their opinion, considerations in the audit of small entities have been dealt with appropriately in the proposed ISA.
- *Special Considerations in the Audit of Public Sector Entities*—Respondents are asked to comment whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed ISA.
- *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISA in a developing nation environment.
- *Translations*—Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed ISA.

<p>To be considered, responses should be emailed to <a href="mailto:Edcomments@ifac.org">Edcomments@ifac.org</a>. They may also be faxed to +1-212-286-9570 or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. They should be received by <b>February 15, 2008</b>.</p>
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**PROPOSED INTERNATIONAL STANDARD ON AUDITING 620**  
**(REVISED AND REDRAFTED)**  
**USING THE WORK OF AN AUDITOR’S EXPERT**

(Effective for audits of financial statements for periods beginning on or after [December 15, 2009])

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[Proposed] International Standard on Auditing (ISA) 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert” should be read in conjunction with [proposed] ISA 200 (Revised and Redrafted), “The Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.”

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor’s use of the work of a person or organization possessing expertise in a field other than accounting or auditing, employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.
2. This ISA does not deal with the auditor’s consultation with specialists in a particular area of accounting or auditing,<sup>7</sup> or with the auditor’s consideration of the work of experts employed or engaged by the entity.<sup>8</sup>
3. If the auditor using the work of an auditor’s expert, having followed this ISA, concludes that the work of that expert is adequate for the purposes of the audit, the auditor may accept that expert’s findings and conclusions in the expert’s field. Nonetheless, the auditor is responsible for the audit opinion, and that responsibility is not diminished by the auditor’s use of the work of an auditor’s expert.

### Effective Date

4. This ISA is effective for audits of financial statements for periods beginning on or after [December 15, 2009].

## Objectives

5. The objectives of the auditor are:
  - (a) To determine whether to use the work of an auditor’s expert; and
  - (b) If using the work of an auditor’s expert, to determine whether that work is adequate for the purposes of the audit.

## Definitions

6. For purposes of the ISAs, the following terms have the meanings attributed below:
  - (a) Expert – A person or organization, possessing expertise in a field other than accounting or auditing.
  - (b) Expertise – Skills, knowledge and experience in a particular profession or specialized occupation. (Ref: Para. A1)
  - (c) Auditor’s expert – An expert employed or engaged by the auditor to assist the auditor to obtain sufficient appropriate audit evidence.

<sup>7</sup> [Proposed] ISA 220 (Redrafted), “Quality Control for an Audit of Financial Statements,” in particular paragraphs 18 and 26(d), includes requirements regarding consultation.

<sup>8</sup> [Proposed] ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence”), in particular paragraphs A30a-A30g, includes guidance regarding experts employed or engaged by the entity. (See proposed conforming amendments with this exposure draft.)

- (d) Auditor's external expert – An auditor's expert who is engaged, not employed, by the auditor. An auditor's external expert is not a member of the engagement team.

## **Requirements**

### **Determining the Need for an Auditor's Expert**

- 7. If expertise in a field other than accounting or auditing is required to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert. (Ref: Para. A2-A8)

### **Nature, Timing and Extent of Audit Procedures**

- 8. The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9-13 of this ISA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, matters considered by the auditor shall include:
  - (a) The nature of the matter to which that expert's work relates;
  - (b) The risks of material misstatement in the matter to which that expert's work relates;
  - (c) The significance of that expert's work in the context of the audit;
  - (d) The auditor's knowledge of and experience with previous work performed by that expert; and
  - (e) Whether the expert is subject to the auditor's firm's quality control policies and procedures. (Ref: Para. A9)

### **The Capabilities, Competence and Objectivity of the Auditor's Expert**

- 9. The auditor shall evaluate whether the auditor's expert whose work is to be used has the necessary capabilities, competence and objectivity for the purposes of the audit. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity. (Ref: Para. A10-A17)

### **Obtaining an Understanding of the Field of Expertise of the Auditor's Expert**

- 10. The auditor shall obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to:
  - (a) Determine the nature, scope and objectives of that expert's work for the purposes of the audit; and
  - (b) Evaluate the adequacy of that work for the purposes of the audit. (Ref: Para. A18-A19)

### **Agreement with the Auditor's Expert**

- 11. The auditor shall agree, in writing when appropriate, the following matters with the auditor's expert: (Ref: Para. A20-A22)
  - (a) The nature, scope and objectives of that expert's work;

- (b) The respective roles of the auditor and that expert; and (Ref: Para. A23-A24)
- (c) The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert. (Ref: Para. A25)

### **Evaluating the Adequacy of the Auditor's Expert's Work**

12. The auditor shall evaluate the adequacy of the auditor's expert's work for the purposes of the audit, including: (Ref: Para. A26)
  - (a) The relevance and reasonableness of that expert's findings, and their consistency with other audit evidence; and (Ref: Para. A27-A28)
  - (b) If significant to the auditor's use of that expert's work:
    - (i) The relevance and reasonableness of the expert's assumptions and methods; and (Ref: Para. A29-A31)
    - (ii) The completeness, relevance and accuracy of source data used by the expert (Ref: Para. A32-A33)
13. If the auditor concludes that the work of the auditor's expert is not adequate for the purposes of the audit, the auditor shall:
  - (a) Agree with that expert on the nature and extent of further work to be performed by that expert; or
  - (b) Perform further audit procedures appropriate to the circumstances. (Ref: Para. A34)

### **Reference to the Auditor's Expert in the Auditor's Report**

14. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the report shall indicate that the reference does not diminish the auditor's responsibility for the audit opinion.
15. If reference to the work of an auditor's expert is relevant to an understanding of a modification to the auditor's opinion, the auditor's report shall indicate that such reference does not diminish the auditor's responsibility for that opinion. (Ref: Para. A35-A36)

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### **Application and Other Explanatory Material**

#### **Definitions** (Ref: Para. 6(b))

- A1. Expertise in a field other than accounting or auditing includes expertise in relation to such matters as:
  - The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art and antiques.
  - The calculation of liabilities associated with insurance contracts or employee benefit

plans.

- The estimation of oil and gas reserves.
- The valuation of environmental liabilities, and site clean-up costs.
- The interpretation of contracts, laws and regulations.
- The analysis of complex or unusual tax compliance issues.

**Determining the Need for an Auditor’s Expert** (Ref: Para. 7)

- A2. The risks of material misstatement may increase when expertise in a field other than accounting is needed for management to prepare the financial statements, for example, because this may indicate some complexity, or because management may not possess knowledge of the field of expertise. If in preparing the financial statements management does not possess the necessary expertise, management may employ or engage an expert to address those risks. Relevant controls, including controls that relate to the work of an expert employed or engaged by management, if any, may also reduce the risks of material misstatement.
- A3. If the preparation of the financial statements involves the use of expertise in a field other than accounting, it is possible that the auditor who is skilled in accounting and auditing may not possess the necessary expertise to audit those financial statements. The engagement partner is required to be satisfied that the engagement team and any auditor’s external experts, collectively have the appropriate capabilities and competence to perform the audit engagement.<sup>9</sup> Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.<sup>10</sup> The auditor’s determination whether to involve an auditor’s expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about involvement of an auditor’s expert.
- A4. An auditor who is not an expert in a relevant field may nevertheless be able to obtain a sufficient understanding of that field to perform the audit without an auditor’s expert. This understanding may be obtained through, for example:
- Experience in auditing entities that require such expertise in the preparation of their financial statements.
  - Education, experience or professional development in the particular field of expertise.
  - Discussion with experts.
  - Discussion with auditors who have performed similar engagements.
- A5. In some cases, however, the auditor may determine that it is necessary, or may choose, to use an auditor’s expert to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor’s expert may include:

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<sup>9</sup> [Proposed] ISA 220 (Redrafted), paragraph 13.

<sup>10</sup> ISA 300 (Redrafted), “Planning an Audit of Financial Statements,” paragraph 7(e).

- Whether management has used an expert in preparing the financial statements (see paragraph A6).
  - The nature and complexity of the matter.
  - The materiality of the matter, and the risks of misstatement.
  - The expected nature of procedures to respond to identified risks.
  - The availability of alternative sources of audit evidence.
- A6. When management has used an expert in preparing the financial statements, the auditor's decision on whether to use an auditor's expert may be influenced by such factors as:
- The nature, scope and objectives of the management's expert's work
  - Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
  - The extent to which management can exercise control or influence over the work of the management's expert.
  - The management's expert's capabilities and competence.
  - Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
  - Any controls within the entity over the management's expert's work.
- [Proposed] ISA 500 (Redrafted) includes requirements and guidance regarding the effect of the capabilities, competence and objectivity of experts employed or engaged by the entity on the reliability of audit evidence.<sup>11</sup>
- A7. An auditor's expert may be needed to assist the auditor in one or more of the following:
- Obtaining an understanding of the entity and its environment, including its internal control.
  - Identifying and assessing the risks of material misstatement.
  - Determining and implementing overall responses to assessed risks at the financial statement level.
  - Designing and performing further audit procedures to respond to assessed risks at the assertion level.
  - Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.
- A8. An auditor's expert may be employed by the auditor or may be engaged by the auditor for the purposes of the audit. Experts employed by the auditor include partners and staff, including temporary staff. Such experts are subject to the firm's quality control policies and

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<sup>11</sup> [Proposed] ISA 500 (Redrafted), paragraphs 12(c), and A30a-A30g. (See proposed conforming amendments with this exposure draft.)

procedures, and when performing audit procedures are part of the engagement team. Experts engaged by the auditor are defined as “auditor’s external experts” and are not part of the engagement team.

**Nature, Timing and Extent of Audit Procedures** (Ref: Para. 8)

A9. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9-13 of this ISA will vary depending on the circumstances. For example, the following factors may suggest the need for more extensive procedures or procedures of a different nature:

- The work of the auditor’s expert relates to a significant matter that involves subjective and complex judgments.
- The auditor has not previously used the work of the auditor’s expert, and has no prior experience of that expert’s capabilities, competence and objectivity.
- The expert is an auditor’s external expert and is not, therefore, subject to the auditor’s firm’s quality control policies and procedures.

**The Capabilities, Competence and Objectivity of the Auditor’s Expert** (Ref: Para. 9)

A10. The capabilities, competence and objectivity of an auditor’s expert are factors that significantly affect whether the work of the auditor’s expert will be adequate for the purposes of the audit. Information regarding the capabilities, competence and objectivity of an auditor’s expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with other auditors or others who are familiar with that expert’s work.
- Knowledge of that expert’s qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.

A11. When an auditor’s expert is a member of the engagement team, that expert is subject to the auditor’s firm’s quality control policies and procedures.<sup>12</sup> The auditor is responsible for establishing that the engagement team, and any auditor’s external experts, collectively have the appropriate capabilities, competence and time to perform the audit engagement.<sup>13</sup> However, engagement teams are entitled to rely on the firm’s systems unless information provided by the firm or other parties suggests otherwise.<sup>14</sup> This may be relevant to aspects of such matters as:

- Capabilities and competence, through recruitment and training programs.

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<sup>12</sup> That is, those implemented in accordance with [proposed] ISA 220 (Redrafted), and [proposed] ISQC 1 (Redrafted), “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.”

<sup>13</sup> [Proposed] ISA 220 (Redrafted) paragraph 13.

<sup>14</sup> [Proposed] ISA 220 (Redrafted) paragraph 3(c).

- Objectivity, through the firm’s policies and procedures to comply with relevant independence requirements.
  - Adherence to regulatory and legal requirements, through monitoring processes.
- A12. When considering the capabilities, competence and objectivity of the auditor’s expert, it may be relevant to consider whether that expert’s work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.
- A13. Other matters that may be relevant include:
- The relevance of the auditor’s expert’s capabilities and competence to the matter for which that expert’s work will be used, including any areas of specialty within that expert’s field. For example, a particular actuary may specialize in property and casualty insurance, but have limited expertise regarding pension calculations.
  - The auditor’s expert’s capabilities and competence with respect to relevant accounting and auditing requirements, including experience in assisting with the preparation or audit of financial statements, and the use and knowledge of assumptions and methods consistent with the applicable financial reporting framework.
- A14. Objectivity relates to the effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the auditor’s expert. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Safeguards may eliminate or reduce such threats, and may be created by external structures (e.g., the auditor’s expert’s profession, legislation or regulation), or by the auditor’s expert’s work environment (e.g., quality control policies and procedures). There may also be safeguards specific to the audit engagement.
- A15. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the auditor’s expert and the significance of the expert’s work in the context of the audit. There may be some situations in which safeguards cannot reduce threats to an acceptable level, for example, if the auditor’s expert has played a significant role in preparing information that is being audited, the auditor may not be able to use the work of that expert.
- A16. When evaluating the objectivity of an auditor’s external expert, it may be relevant to discuss with that expert any circumstances that may create threats to the expert’s objectivity, and any relevant safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Circumstances that it may be relevant to discuss with the auditor’s expert may include interests or relationships with the entity, such as:
- Financial interests.
  - Business and personal relationships.
  - Provision of other services by the expert, including by the organization in the case of



an external expert that is an organization.

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware.

A17. Inquiry by the auditor of the entity about any known interests or relationships with the auditor's external expert may also be of assistance in identifying circumstances that may affect that expert's objectivity.

**Obtaining an Understanding of the Field of Expertise of the Auditor's Expert** (Ref: Para. 10)

A18. The auditor may obtain an understanding of the auditor's expert's field of expertise through the means described in paragraph A4 or through discussion with that expert.

A19. Aspects of the auditor's expert's field relevant to the auditor's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the audit (see paragraph A13).
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What methodologies and assumptions are used, and whether they are generally accepted within the auditor's expert's field and appropriate for financial reporting purposes.
- The nature of internal and external data or information the auditor's expert uses.

**Agreement with the Auditor's Expert** (Ref: Para. 11)

A20. The nature, scope and objectives of the auditor's expert's work will vary considerably with the circumstances, as will the respective roles of the auditor and the auditor's expert, and the nature, timing and extent of communication between the auditor and the auditor's expert. It is therefore important that these matters are agreed between the auditor and the auditor's expert, and that this agreement is in writing when appropriate, both when the expert is an auditor's external expert and when the expert is employed by the auditor.

A21. The more significant the work of an auditor's expert is in the context of the audit, the more likely it is that the agreement between the auditor and that expert will need to be reasonably detailed and set out in writing.

A22. Evidence of the agreement may be included in, for example:

- Planning memoranda and related working papers.
- The policies and procedures of the auditor's firm. When the auditor's expert is a member of the engagement team, the established policies and procedures to which that expert is subject may include particular policies and procedures in relation to that expert's work, including the respective roles of the auditor's expert and other members of the engagement team. The extent of any further documentation depends on the nature of such policies and procedures.

- An engagement letter (in the case of an auditor’s external expert), or other written form of agreement. The Appendix contains a list of matters that the auditor may consider relevant for inclusion in an agreement with an auditor’s external expert. The list may also be of assistance in considering the matters to be included in an agreement with an auditor’s expert who is a member of the engagement team.

*Respective Roles* (Ref: Para. 11(b))

A23. Agreement on the respective roles of the auditor and the auditor’s expert may include:

- Whether the auditor or the auditor’s expert will perform detailed testing of source data.
- The responsibility of the auditor’s expert to respect the confidentiality of information about the entity.
- Consent for the auditor to discuss the auditor’s expert’s findings with the entity and others, and to include details of that expert’s findings in a modified auditor’s report, if necessary.
- Any agreement to inform the auditor’s expert of the auditor’s conclusions concerning that expert’s work.

*Working Papers*

A24. Agreement on the respective roles of the auditor and the auditor’s expert may also include agreement about access to each other’s working papers. When the auditor’s expert is a member of the engagement team, that expert’s working papers form part of the audit documentation. Subject to any agreement to the contrary, auditor’s external experts’ working papers are their own and do not form part of the audit documentation.

*Communication* (Ref: Para. 11(c))

A25. Effective two-way communication helps to ensure that the nature, timing and extent of planned procedures to be performed by the auditor’s expert are properly integrated with other work on the audit, and that the auditor’s expert’s objectives are modified as needed during the course of the audit. For example, when the work of the auditor’s expert relates to the auditor’s conclusions regarding a significant risk, both a formal written report at the conclusion of that expert’s work, and oral reports as the work progresses, may be appropriate. Identification of specific partners or staff who will liaise with the auditor’s expert, and procedures for communication between that expert and the entity, may assist timely and effective communication, particularly on larger engagements.

**Evaluating the Adequacy of the Auditor’s Expert’s Work** (Ref: Para. 12)

A26. The auditor’s consideration of the auditor’s expert’s capabilities, competence and objectivity, the auditor’s familiarity with the auditor’s expert’s field of expertise, and the nature of the work performed by the auditor’s expert may affect the nature, timing and extent of audit procedures to evaluate the adequacy of that expert’s work for the purposes of the audit.

*The Findings of the Auditor's Expert* (Ref: Para. 12(a))

A27. Specific procedures to evaluate the adequacy of the auditor's expert's work for the purposes of the audit may include:

- Inquiries of the auditor's expert, management or others with a particular knowledge of the matter.
- Corroborative procedures, such as:
  - Observing the auditor's expert's work.
  - Examining documentary evidence the auditor's expert provides.
  - Examining published data, such as statistical reports from reputable, authoritative sources.
  - Confirming with third parties, such as regulators, the results of their examinations.
  - Performing detailed analytical procedures.
  - Reperforming calculations.
  - Reviewing how any inconsistencies in evidence were resolved.
- Reviewing the auditor's expert's working papers.
- Discussion with another expert with relevant expertise.
- Discussing the auditor's expert's report with management.

A28. Factors that may be relevant when considering the relevance and reasonableness of the findings of the auditor's expert, whether in a report or other form, may include whether they are:

- Presented in a manner that is consistent with any standards of the auditor's expert's profession or industry.
- Clearly expressed, including reference to the objectives agreed with the auditor, the scope of the work performed and standards applied.
- Based on an appropriate period and take into account subsequent events, where relevant.
- Subject to any reservation, limitation or restriction on use, and if so, whether this has implications for the auditor.
- Based on appropriate consideration of errors or deviations encountered by the auditor's expert.

*Assumptions, Methods and Source Data*

Assumptions and Methods (Ref: Para. 12(b)(i))

A29. When the auditor's expert's work relates to an accounting estimate developed by management, the auditor's procedures are likely to be directed to considering whether that

expert has properly reviewed the assumptions and methods, including models, used by management. In other circumstances, for example, when the auditor’s expert assists in developing an auditor’s point estimate or an auditor’s range for comparison with management’s point estimate, the assumptions and methods used by the auditor’s expert may be significant to the auditor’s use of that expert’s work.

A30. [Proposed] ISA 540 (Revised and Redrafted)<sup>15</sup> discusses the assumptions and methods used by management in making accounting estimates. Although that discussion is written in the context of the auditor obtaining sufficient appropriate audit evidence regarding management’s assumptions and methods, it may also assist the auditor when evaluating the auditor’s expert’s assumptions and methods.

A31. When evaluating the auditor’s expert’s assumptions and methods, relevant factors may include whether they are:

- Generally accepted within the auditor’s expert’s field.
- Consistent with the requirements of the applicable financial reporting framework.
- Consistent with those of management, and if not, what are the reason and effects of the differences.

Source Data Used by the Auditor’s Expert (Ref: Para. 12(b)(ii))

A32. When an auditor’s expert’s work involves the use of source data that is significant to the auditor’s use of that work, procedures such as the following may be used to test that data:

- Verifying the origin of the data.
- Recomputing the inputs.
- Reviewing the data for completeness and internal consistency, including when applicable whether the data is consistent with management’s intent and ability to carry out specific courses of action.

A33. In many cases, testing source data will be done by the auditor. In other cases however, for example, when source data used by an auditor’s expert is highly technical in relation to the auditor’s expert’s field, that expert may test the source data. If the auditor’s expert has tested the source data, it may be appropriate for the auditor to evaluate that data’s completeness, relevance and accuracy by inquiry of that expert, or supervision or review of that expert’s tests.

*Inadequate Work* (Ref: Para. 13)

A34. If the auditor concludes that work of the auditor’s expert is not adequate for the purposes of the audit and the auditor cannot resolve the matter through the additional audit procedures required by paragraph 13, which in rare cases may include employing or engaging another

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<sup>15</sup> [Proposed] ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”

expert, it may be necessary to express a modified audit opinion in accordance with [proposed] ISA 705 (Revised and Redrafted).<sup>16</sup>

**Reference to the Auditor’s Expert in the Auditor’s Report** (Ref. Para. 14-15)

- A35. In some cases, law or regulation may require a reference to the work of an auditor’s expert, for example, for the purposes of transparency in the public sector.
- A36. It may be appropriate in some circumstances to refer to the auditor’s expert in an auditor’s report containing a modified opinion, to explain the nature of the modification. In such circumstances, the auditor may need the permission of the auditor’s expert before making such a reference.

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<sup>16</sup> [Proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”

**Appendix**

(Ref: Para. A22)

**Considerations for Agreement Between the Auditor and an Auditor's External Expert**

This appendix lists matters that the auditor may consider for inclusion in any agreement with an auditor's external expert. The list is illustrative and is not exhaustive; it is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA. Whether to include particular matters in the agreement depends on the circumstances of the engagement. The list may also be of assistance in considering the matters to be included in an agreement with an auditor's expert who is a member of the engagement team.

**Nature, Scope and Objectives of the Auditor's External Expert's Work**

- The nature and scope of the procedures to be performed by the auditor's external expert.
- The objectives of the auditor's external expert's work in the context of materiality and risk considerations concerning the matter to which the auditor's external expert's work relates.
- Any relevant technical performance standards or other professional or industry requirements the auditor's external expert will follow.
- The assumptions and methods the auditor's external expert will use, and their authority.
- The effective date of, or when applicable the testing period for, the subject matter of the auditor's external expert's work, and requirements regarding subsequent events.

**The Respective Roles of the Auditor and the Auditor's External Expert**

- Relevant auditing and accounting concepts and standards, and relevant regulatory or legal requirements.
- The auditor's external expert's consent to the auditor's intended use of that expert's report, including any reference to it, or disclosure of it, to others, for example reference to it in a modified auditor's report, if necessary, or disclosure of it to management or an audit committee.
- The nature and extent of the auditor's review of the auditor's external expert's work and findings.
- Whether the auditor or the auditor's external expert will perform detailed testing of source data.
- The auditor's external expert's access to the entity's records, files, personnel and to experts engaged by the entity.
- Procedures for communication between the auditor's external expert and the entity.
- The auditor's and the auditor's external expert's access to each other's working papers.
- Ownership and control of working papers during and after the engagement, including any file

retention requirements.

- The responsibility of the auditor's external expert to respect the confidentiality of information.
- The auditor's external expert's responsibility to perform work with due skill and care.
- The auditor's external expert's competence and capacity to perform the work.
- The expectation that the auditor's external expert will use all knowledge that expert has that is relevant to the audit or, if not, will inform the auditor.
- Any restriction on the auditor's external expert's association with the auditor's report.
- Any agreement to inform the auditor's external expert of the auditor's conclusions concerning that expert's work

### **Communications and Reporting**

- Methods and frequency of communications, including:
  - How the auditor's external expert's findings will be reported (written report, oral report, ongoing input to the engagement team, etc.).
  - Identification of specific persons within the engagement team who will liaise with the auditor's external expert.
- When the auditor's external expert will complete the work and report findings to the auditor.
- The auditor's external expert's responsibility to communicate promptly any potential delay in completing the work, and any potential reservation or limitation on that expert's findings.
- The auditor's external expert's responsibility to communicate promptly instances in which the entity restricts that expert's access to records, files, personnel or experts engaged by the entity.
- The auditor's external expert's responsibility to communicate to the auditor all information that expert believes may be relevant to the audit, including any changes in circumstances previously communicated.
- The auditor's external expert's responsibility to communicate circumstances that may create threats to that expert's objectivity, and any relevant safeguards.

## CONFORMING AMENDMENTS

### [Proposed] ISA 500 (Redrafted), “Considering the Relevance and Reliability of Audit Evidence”

3. Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence is necessary to support that opinion and the auditor’s report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from, for example, previous audits and a firm’s quality control procedures for client acceptance and continuance. The entity’s accounting records are an important source of audit evidence along with other sources inside and outside the entity. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management’s assertions, and any information that contradicts such assertions. (Ref: Para. A1-A3)
10. For purposes of the ISAs, the following terms have the meanings attributed below:  
...
  - (e) Management’s expert – A person or organization employed or engaged by the entity and possessing expertise in a field other than accounting.
12. When information used by the auditor for purposes of the audit was produced by the entity, including any management’s experts, the auditor shall evaluate whether the information is sufficiently reliable for the auditor’s purposes, including as necessary in the circumstances:
  - (a) Obtaining audit evidence about the accuracy and completeness of the information;
  - (b) Evaluating whether the information is sufficiently precise or detailed for the auditor’s purposes; and
  - (c) Evaluating the capabilities, competence and objectivity of a management’s expert, if any. (Ref: Para. A28-A30g)
- A23. ~~Due to the fact that~~ The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant, and whether the information was prepared by a management’s expert. Therefore, generalizations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an independent external source may not be reliable if the source is not knowledgeable, or an expert engaged by the entity may lack objectivity. While recognizing that exceptions may exist, the following generalizations about the reliability of audit evidence may be useful ...



Information Produced by a Management's Expert and Used for Audit Purposes (Ref: Para. 12(c))

A30a. The preparation of an entity's financial statements may require expertise in a field other than accounting, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields in order to obtain the needed expertise to prepare the financial statements. Failing to do so when such expertise is necessary increases the risks of material misstatement. The capabilities, competence and objectivity of a management's expert, and any controls within the entity over that expert's work, are important factors in considering the reliability of any information produced by a management's expert.

A30b. Information regarding the capabilities, competence and objectivity of a management's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.

A30c. When considering the capabilities, competence and objectivity of a management's expert, it may be relevant to consider whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.

A30d. Other matters that may be relevant include:

- The relevance of that expert's capabilities and competence to the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialize in property and casualty insurance, but have limited expertise regarding pension calculations.
- The expert's capabilities and competence with respect to relevant accounting requirements, including experience in assisting with the preparation of financial statements, and the use and knowledge of assumptions and methods consistent with the applicable financial reporting framework.

A30e. Objectivity relates to the effects that bias, conflict of interest or the influence of others may have on the professional or business judgment of the expert. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats, and may be created either by external structures (e.g., the management's expert's profession, legislation or regulation), or by the management's expert's work environment (e.g., quality control policies and procedures).

A30f. Although safeguards cannot eliminate all threats to a management's expert's objectivity, the significance of threats such as intimidation threats may be less to an expert engaged by the entity than to an expert employed by the entity, and the significance of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

A30g. When evaluating the objectivity of an expert engaged by the entity, it may be relevant to discuss with management and the expert any circumstances that may create threats to the expert's objectivity, and any relevant safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Circumstances creating threats may include interests or relationships with the entity, such as:

- Financial interests.
- Business and personal relationships.
- Provision of other services.





**International Federation of Accountants**

545 Fifth Avenue, 14<sup>th</sup> Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 [www.ifac.org](http://www.ifac.org)