

For the attention of Jim Sylph
International Federation of Accountants
545 Fifth Avenue, 14th Floor
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USA

15 February 2008

Dear Sir

IAASB Exposure Draft – “Using the Work of an Auditor’s Expert”

We appreciate the opportunity to comment on the IAASB’s Proposed Revised and Redrafted ISA 620, *Using the Work of an Auditor’s Expert* (“proposed revised ISA”). Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall comments

Whilst we are satisfied that the Clarity drafting conventions have been appropriately applied in the revision of this ISA, we are concerned that the requirements could have unintended consequences in practice without further clarification of how they should be applied in different circumstances. For the reasons explained below, we do not support the release of this draft as a final ISA without amendment.

The scope of the proposed ISA and how the ISAs collectively provide appropriate guidance regarding internal or external auditor’s experts, and management’s experts, have been debated at length throughout this project. There are a number of possible solutions and we do not believe that there is one inherently preferred approach. It is important that, however structured, the guidance recognises the range of relationships between auditors and experts, and the variety of ways an expert’s expertise can be brought to bear in an audit, so that the work effort expected can be appropriately adapted to be commensurate with the circumstances. An approach that inadvertently discourages the use of experts would be detrimental to audit quality.

In this regard, we are not uncomfortable with the proposal in the Exposure Draft to include the auditor’s consideration of both external experts and internal experts included in the engagement team within the scope of the same ISA – as long as the differential in the work effort expected in both situations is clear. We are concerned, however, that it is not always clear in proposed revised ISA what the auditor is required to do differently or incrementally when using the work of auditors’ external experts compared to the work of auditors’ internal experts.

In addition, whilst we support the IAASB’s decision to deal with the work of a management’s expert in the conforming amendments to [proposed] ISA 500 (Redrafted), we are concerned that the proposed conforming amendment to [proposed] ISA 500 (Redrafted) is not sufficiently clear regarding the circumstances when the guidance applies and the scope of work to be performed regarding the work of management’s experts.

We elaborate on these points below and offer suggestions that we strongly encourage IAASB to adopt before finalising the revision of ISA 620 and conforming amendments to ISA 500.

Application of the Clarity drafting conventions

1. *Are the objectives to be achieved by the auditor stated in the proposed revised ISA appropriate?*

We believe that the proposed objectives are appropriate.

2. *Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and the use of professional judgement by auditors?*

Subject to the specific comments set out below, we are satisfied that the criteria for determining whether a requirement should be specified have been applied appropriately and consistently in the proposed revised ISA.

Responses to request for specific comments

1. *Proposal that ISA 620 should deal exclusively with considerations relevant to using the work of an auditor's expert, and expanding ISA 500 to deal with the work of a management's expert.*

As noted in our introductory remarks, we support this decision.

2. *Proposal that the definition of "expert" should exclude persons or organisations possessing expertise in accounting or auditing.*

We strongly support this proposal. Consultation on accounting or auditing matters is appropriately addressed in ISA 220.

Further explanation of concerns and recommendations

Auditor's expert and auditor's external experts

We support ISA 620 dealing with both an auditor's external expert and an expert employed by the auditor (i.e., internal expert) as long as the auditor's respective work effort in both circumstances is clear. However, we are concerned that the proposed revised ISA is not sufficiently clear on the difference in work effort when the expert is external to the audit firm, and when the expert is internal to the firm (and, therefore, subject to the firm's quality control policies and procedures). In addition, we are concerned that the ISA doesn't adequately recognise the range of ways in which an auditor's expert might be used on the audit engagement and, therefore, imposes work effort that is unnecessary in certain circumstances.

Differentiating the work effort for internal experts

Paragraph 8 of proposed ISA 620 lists a number of matters to consider in determining the nature, timing and extent of the auditor's procedures, some of which differentiate between internal and external experts (e.g., whether the expert is subject to the firm's quality controls). However, in the subsequent paragraphs, it is not always clear, without having to refer to different parts of the application material, how the auditor's procedures would differ when the expert is employed by the auditor (i.e., an "internal" expert), and when the expert is an external expert.

For example, in paragraph 9, reference is explicitly made to what is expected in the case of an auditor's external expert in evaluating the objectivity of the external expert. We believe that the requirement should also explain that in the case of an internal expert, the auditor may rely on the firm's quality control policies and procedures when considering matters such as objectivity. This would strengthen the link between proposed ISA 620 and ISA 220. Therefore, we recommend the following amendment be made to paragraph 9:

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. In the case of an auditor's expert employed by the firm, in accordance with ISA 220, Quality Control for an Audit of Financial Statements, the engagement team is entitled to rely on the firm's system of quality control (in this case, the policies and procedures in place to deal with matters relevant to the auditor's evaluation), unless information provided by the firm or other parties suggests otherwise. (Ref: Para. A10-A17)*

Also, in paragraph 11, the auditor is required to agree, in writing when appropriate, various matters with the auditor's expert. The application material alludes to the fact that evidence of the agreement may include the policies and procedures of the auditor's firm, but it is not clear when they are sufficient to comply with the requirement and when they are not.

To deal with this point, we recommend that paragraphs 11 and the application material in paragraph A20-A22 be amended as follows:

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).~~

In the case of an auditor's external expert, such agreement shall be in writing.

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 whether the expert is an auditor's external expert and when or the expert is employed by the auditor.~~

A20a. In the case of an auditor's external expert such agreement is set out in writing, for example, in an engagement letter, to ensure a mutual understanding of the auditor's and the expert's respective responsibilities. The appendix includes a list of matters that the auditor may consider relevant for inclusion in an agreement with an auditor's external expert. (moved from 3rd bullet of A22)

A21. In the case of an internal expert, in addition to the expert being subject to the firm's quality control procedures, the firm may have established policies and procedures, including working protocols, regarding the expert's involvement in an audit engagement. Internal experts involved in audit engagements often receive training on, and have experience in, the relevant accounting framework and auditing requirements. In many circumstances, internal experts document their work in the same audit file as other members of the engagement team and have ready access to the audit strategy and audit plan. The extent of any further documentation required to ensure a mutual understanding between the auditor and an internal expert depends on the nature and extent of the firms' policies and procedures, and the nature of the work that expert will be performing.

A22. Therefore, evidence of the agreement of the matters described in paragraph 11 may be included in, for example:

- The policies and procedures of the auditor's firm. (order changed and remainder of this bullet incorporated into proposed A21)
- Planning memoranda and related working papers.
- An engagement letter (in the case of an auditor's external expert), or other written form of agreement.

Clarifying the work effort when the auditor's expert reviews the work of management's expert

We are also concerned that there is insufficient guidance to explain how paragraph 12 should be interpreted when an expert assists the engagement team in obtaining evidence regarding the work of management's expert (e.g., if considering the work of management's expert when obtaining evidence regarding the process the entity followed in developing an accounting estimate, in accordance with ISA 540). Paragraph 12(b) is prefaced by "if significant to the auditor's use of that expert's work", and, therefore, could be argued not to be applicable if using an expert in that way. However, paragraph 12(a) applies in all circumstances. The related application guidance in paragraphs A27-A28 seems very much focussed on work that would be performed by an expert to develop an independent point estimate or provide other independent evidence used to corroborate an assertion. Most of the illustrative procedures seem excessive if the expert is acting as part of the engagement team in obtaining evidence regarding management expert's work. We believe that further

guidance is needed to illustrate the differential in work effort to meet the requirement in paragraph 12 that would be appropriate in different circumstances.

Clarifying applicability to networks

In addition to the points noted above, paragraph A11 of the Application material recognises that an internal expert is subject to the “auditor’s firm’s quality control procedures”. However, it is not clear whether “auditor’s firm” includes network firms as dealt with in ISQC 1. This has implications, for example, when an auditor’s expert provides expertise to a network firm in another territory as it is not clear whether or not such network firm is considered part of the “auditor’s firm” and, consequently, whether the expert should be regarded as an auditor’s internal expert or an auditor’s external expert. We recommend that the terms “auditor’s firm” and “the firm” in ISA 620 be clarified to include network firms, as dealt with in paragraph 62 of [proposed] ISQC 1.

Management’s experts

We support IAASB’s proposal to deal with the work of a management’s expert in the conforming amendments to proposed ISA 500 (Redrafted). In fact, we can see some advantages in delineating between the role an expert plays when brought in by the engagement team to obtain sufficient audit evidence, and that played by an expert brought in to assist management in preparing the financial statements.

However, we are concerned that the guidance in [proposed] ISA 500 lacks clarity on when the requirements should be applied, and the scope of work to be performed by the auditor to assess the work of management’s expert. Paragraph 12 of [proposed] ISA 500 (Redrafted) is written in the context of an auditor directly seeking to use the work produced by a management’s expert, but is not clear as to whether the requirements (1) are expected *whenever* information produced by a management’s expert is used for audit purposes (which could be very broad); and (2) apply, to the same extent, when the auditor (i.e. a person without the expertise in the relevant field) directly assesses the work produced by management’s expert, and when an auditor’s expert (i.e. a person with expertise in the relevant field) is engaged to assess the work of management’s expert.

Clarifying when the requirement applies

If management have used an expert, it is more likely than not to be in relation to an estimate. It should be clear, therefore, how the guidance in [proposed] ISA 500 on the use of management’s experts aligns with the requirements, in paragraph 13 of [proposed] ISA 540, for the auditor to undertake one or more procedures in relation to the assessed risk of material misstatement of the estimate. One such procedure is to test how management made the accounting estimate and the data on which it is based (i.e. audit management’s process), and whether the measurement used is appropriate and the assumptions used by management are reasonable. However, [proposed] ISA 540 recognises that the auditor may obtain evidence regarding the reasonableness of an estimate through other procedures, including subsequent events procedures or developing the auditor’s own estimate to evaluate management’s estimate.

If the audit approach is to audit the process the entity followed to develop the financial information, the expert’s competence, independence and methods are relevant in obtaining sufficient appropriate audit evidence. If, on the other hand, the auditor is able to obtain sufficient appropriate evidence through procedures other than auditing management’s process (for example, through subsequent events procedures or developing the auditor’s own estimate), there seems to be no reason to have to evaluate the capabilities, competence and objectivity of management’s expert as set out in [proposed] ISA 500 paragraph 12 (c).

[Proposed] ISA 500 states that the guidance applies when information produced by a management’s expert is “used by the auditor for the purposes of the audit”. However, it is not sufficiently clear what this means. As the expert contributes to the development of financial information that becomes an integral part of the financial statements, it could be argued that the information produced by management’s expert is always “used” by the auditor. Certainly, in each of the procedures set out in paragraph 13 of [proposed] ISA 540, it could be argued that such information is being used.

To deal with these points, we suggest that paragraph 12 be reworded to deal with the considerations applicable to the information produced by the entity generally, and that a new paragraph be inserted to deal with the additional considerations that apply when the auditor tests a management’s expert’s process. This would strengthen the link with proposed ISA 540, which recognises that the auditor may obtain evidence regarding the reasonableness of an estimate through procedures other than testing how management made

the estimate. We offer, for the IAASB's consideration, the following rewording of paragraph 12 of proposed ISA 620, and suggested wording for the additional paragraph:

"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; and*
- (b) Evaluating whether the information is sufficiently precise or detailed for the auditor's purposes.*

When information is produced by management's expert and the auditor seeks to obtain audit evidence from the process the management's expert has applied to develop that information, the auditor shall, in addition, evaluate the capabilities, competence and objectivity of such a management's expert (Ref: Para. A28-A30g).

Clarifying how they apply

We also recommend that the guidance in paragraphs A28 to A30g be amplified to clarify that, when an auditor's expert is engaged to assess the work of management's expert, the extent of the procedures to assess the capabilities and competence of the management's expert may not need to be as extensive as when a person without the expertise in the relevant field assesses the work produced by management's expert. The auditor's expert will need to consider the scope of the management's expert's work, and whether it is appropriate in the context of the financial reporting framework but, since the auditor's expert is forming his/her own judgements and comparing them to the management's expert's judgements, the auditor will be less concerned with assessing the capabilities and competence of the management's expert.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Roger Marshall (+44 20 7804 4866).

Yours faithfully,

PricewaterhouseCoopers