



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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January 24, 2008

Mr. Greg Shields, CA
Director, Auditing and Assurance Standards
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, ON
M5V 3H2

Dear Mr. Shields:

Re: Exposure Draft (ED), *Using the Work of an Auditor's Expert CAS 620*

The Canadian Public Accountability Board (CPAB) is pleased to comment on the above ED. We intend to respond to the IAASB on several aspects of this ED, the most important of which are set out in this response. We will copy you when we do. In this response we focus primarily on matters for the AASB's consideration relating to the application of the ED in Canada. We perceive serious weaknesses in the requirements in ISA 620 and in the application guidance.

Overall, subject to its more limited scope, we believe CAS 620 will be an improvement on existing ISA 620, but it is significantly less comprehensive than Handbook Section 5049 (Section 5049) and will represent a decrease in Canadian standards and guidance if not changed or supplemented, as set out in our comments below.

Key concerns

1. Use of experts employed by, or engaged by the client

We understand that this is excluded from the scope of ISA 620. Instead it is covered as a conforming amendment to ISA 500, which is substantially less comprehensive than existing Section 5049 and, in our view, inadequate. ISA 620 is particularly important for Canada and other heavily resource based economies. The AASB needs to ensure that the final ISA 620 (or ISA 500) properly addresses Canadian practice when relying on experts retained by the client e.g. reserve engineers. If the ISAs do not properly address this matter, the AASB needs to modify them or provide supplementary standards or guidance, as appropriate. In our experience, reserve engineers are most often employed by or engaged by the client. In other cases as well, it is very common for auditors to use experts that are employed or engaged by management. We believe Canadian practitioners need more specific guidance on use of experts employed or engaged by the client, preferably by expanding the scope

of ISA 620, but if not, in ISA 500 or in supplementary guidance. It would also be useful to maintain the distinction between experts employed by and experts engaged by the client, as in Section 5049.13 through .16.

2. Documentation

Paragraph 5049.74 deals with documentation and contains useful guidance. ISA 620 does not cover documentation at all. This is a critical point that needs to be addressed. In our experience, there is a lack of clarity concerning the documentation requirements that should be met when external experts (including those engaged by management) and internal experts are utilized. In practice, we find deficiencies in this area. We believe that the guidance in 5049.74 needs to be brought forward.

3. Source data

We often encounter situations where the auditor has not audited the completeness, relevance and accuracy of the source data (often assuming that the expert has verified this information). We believe paragraph 12, together with paragraphs A23 and A32 & 33 of the ED do not adequately address the need for the auditor to be satisfied as to the accuracy of the source data since all required or suggested procedures are optional. A32 and A33 should be strengthened so that the procedures become requirements.

4. Option to not use the work of an expert

Paragraph A4 says:

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.

We are concerned that this option may be misused. When the expertise in question requires an expert to be licensed and a member of a profession (e.g., actuaries, reserve engineers) we believe this approach should not be permitted if the matter is material. Rare circumstances may exist where the engagement partner or member of the team is actually qualified, in which case he or she becomes a de facto expert. More guidance is needed to prevent abuse.

5. Communication with external expert (ED paragraphs A20 to A22)

CPAB can see no reason why the communication should not be in writing.

6. Weak language in the Application and Explanatory Material

As with other recent EDs, there are many examples of use of the word "may" and terminology such as "*it may be appropriate*" and (worse still) "*it may be relevant to consider*", which we consider to be unnecessarily weak. We will be making detailed recommendations to the IAASB on this issue.

7. Further important matters covered in Section 5049 but omitted from ISA 620

CPAB believes these are serious issues for Canadian practitioners and, if not addressed in ISA 620 or ISA 500 should be covered in supplementary guidance for Canadian practitioners. Section 5049 contains a great deal of additional requirements or guidance that we believe it would be a mistake to discard:

- We do not think that omission of the italicized requirements currently in Handbook 5049.41 is acceptable for Canadian practice. The issue of confidentiality in the transfer of information between the auditor and the

expert is important and is completely omitted from the requirements in the ED. It is mentioned only as an option in A23.

- Paragraph .37(a) requires consideration of the expert's integrity. This is not covered in ISA 620.
- The considerations in paragraph .22 concerning the auditor's understanding of the expert's specialty are not contained in ISA 620.
- The material in paragraphs .44 and .45 concerning the expert's understanding of the audit process is not carried forward. The expert needs to understand the context within which his or her report and findings will be used.
- The examples in paragraphs .18 through .20 are useful and should be retained in supplemental guidance. They result from actual Canadian experience.
- The material in paragraph .47 concerning the subject matter of communication between the auditor and the expert is mostly not carried forward.
- Paragraph .49 and following deal with supervision by the auditor of the work of the expert. Supervision is hardly mentioned in ISA 620.
- Paragraph .57 sets out a number of factors to take into account in assessing the risk of error in the expert's findings. While some of these risks are covered in ISA 620, others are not. Also this concept of risk assessment is not carried forward.
- The procedural guidance in paragraphs .57 through .69 is comprehensive and risk based. The equivalent in ISA 620 A26 to A28 is much less comprehensive and, surprisingly given the IAASB's dedication to a risk based approach, is not risk based.

8. Review engagements

We believe a separate assurance standard, or assurance Guideline, on review engagements is necessary to deal with use of experts in quarterly reviews of public entities, particularly resource based entities that estimate reserves on a quarterly basis.

Comments on the Introduction to the ED

Significant proposed Canadian modifications

We believe modifications will be needed in a number of areas, as noted above.

Summary of significant changes to current Canadian Standards

1. We agree with the proposal to provide requirements and supporting material to cover assurance engagements other than financial statement audits.
2. As noted above, we believe a separate assurance standard, or assurance Guideline, on review engagements is necessary.
3. As noted in 7 above, the omission from the scope of matters related to an expert's understanding of accounting or auditing matters is a problem.

4. As noted in 1 of the Key concerns, Section 5049.13 through .16 make an important distinction between experts employed by the client and experts engaged by the client. This distinction is out of scope for ISA 620 and is not picked up in conforming amendments to ISA 500.
5. Similarly, paragraphs 5049.10 and .11 distinguish between external experts who are members of the engagement team and those who are not. While this distinction may be made primarily to allow for multi-disciplinary teams on assurance engagements other than audits of financial statements (e.g., social responsibility audits), it is also relevant in some cases in financial statement audits.
6. We have no difficulties with the other changes set out in items (b) through (f).

If you wish to discuss any of the above comments please contact David Selley at CPAB (416) 913-8260 Extension 4153.

Yours truly,

A handwritten signature in cursive script, appearing to read "K. Boocock".

Keith Boocock, CA
Chief Executive Officer