



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

150 YORK STREET, SUITE 200, BOX 90, TORONTO, ONTARIO M5H 3S5
TEL 416.913.8260 FAX 416.850.9235 WWW.CPAB-CCRC.CA

February 25, 2008

Mr. Jim Sylph, CA
Executive Director, Professional Standards
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Mr. Sylph:

RE: Exposure Draft, ISA 620 – Using the work of an Auditor’s expert

The Canadian Public Accounting Board (CPAB) is pleased to respond to the above Exposure Draft (ED).

General comments

We recognize that this ED is an improvement over existing ISA 620. However, we have serious concerns about the overall weakness of this ED, which relates to an aspect of our inspections where we frequently find problems. In particular, we find that the audit files do not contain sufficient information about the work performed by the auditor in assessing the work of the expert.

Canada has a significantly resource-based economy and in that sector use of the work of experts such as reserve engineers is very important. Reserve engineers are employed by the client or, more usually, engaged by the client. It is therefore disturbing to us that these situations are essentially scoped out of the standards because ISA 620 only deals with the auditor’s experts and the conforming amendments to ISA 500 are at too high level to deal with this issue.

Similarly, we assume that it is common in all countries for auditors to use experts in valuations of assets and liabilities, especially in purchase equations. In Canada we find that clients often hire another accounting firm to perform these valuations. This provides a much higher degree of confidence, other things being equal, in the valuation. Again, because clients’ experts are scoped out of ISA 620, this type of situation is not considered. We believe the standard is deficient with respect to the use of experts



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employed or engaged by clients. Since these are commonly encountered situations, and there must be many others, we believe the standard should be changed so that they are in scope.

Key specific concerns

1. The scope excludes use of client employed and client engaged experts

As noted above, we believe this is a serious omission and the very high level coverage in conforming amendments to ISA 500 do not nearly deal with the issue. Furthermore, the volume of guidance (seven paragraphs) proposed in ISA 500 is completely out of character for that ISA, which does not deal with any other issue in this degree of detail. The issue is use of experts. It belongs in ISA 620 or, less preferably, in a separate ISA.

2. Documentation

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, especially in situations when their work is an integral part of the audit evidence.

The present CICA Handbook (5149.74) contains the following documentation requirements, which should be considered for ISA 620 (in the original, “expert” reads “specialist”):

- (a) the need to use an expert, and reasons for selecting the particular expert;
- (b) the expert's role in the engagement, and the reason for choosing that approach;
- (c) important communications with the expert, especially concerning the nature of the relationship between the practitioner and the expert if such communications are not in writing;
- (d) information concerning the expert's expertise (including qualifications), competence and integrity;
- (e) information concerning the expert's objectivity;
- (f) a description of the expert's work;
- (g) notes concerning the practitioner's work on the expert's work and findings, including any review the practitioner has done of the expert's working papers;



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- (h) the expert's report and other findings, or relevant parts thereof; and
- (i) the practitioner's assessment of the relevance of the expert's report or other findings to the objective of the engagement, and to the practitioner's conclusion on the subject matter.

Items (d), (e) and (f) may be documented in the expert's report.

While this may be more detailed than is typical for an ISA, we believe at least items (c) through (i) should be included in a separate section of the Application and Other Explanatory Material as, for example, in ISA 600.

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. Paragraph 12 requires the auditor to assess the adequacy of the expert's work on the source data and paragraph 13 requires the auditor to perform further procedures thereon if he or she concludes that the work is not adequate. A33, however, is inconsistent in that it suggests in the last sentence that it "may be appropriate" for the auditor to evaluate that work when tests of source data have been performed by the expert. Dropping the last sentence in A33 would solve this problem.

We also find no guidance of any kind to distinguish between 12 (a) situations and 12 (b) situations. We find it hard to understand how auditors will make the distinction between them. If the reference to "significant" in (b) is intended to equate to "significant risks", we believe this too high a threshold. If (a) is truly insignificant, we wonder why any requirement is necessary at all.

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 or abused. When the expertise in question requires an expert to be licensed and a member of a profession (e.g., actuaries, reserve engineers, certified business valuers) we believe this approach



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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 11 and A20 to A22)

We believe certain key elements of the communication must be in writing at least items (a) and (b) in paragraph 11, and probably (c) as well. Paragraph 11 also implies that the expert may not issue a report on his or her findings. We have never come across a situation where significant use of an auditor's expert has not resulted in a report or other form of written communication. To accept an oral report from an expert in a significant matter is in our view unprofessional on the part of both the auditor and the expert.

6. Confirmation of objectivity

Paragraph A16 says:

It may be relevant to discuss with that expert any circumstances that may create threats to the expert's objectivity.

We believe this is seriously inadequate and that it should be a requirement that the auditor obtain written confirmation from internal and external experts that they are appropriately objective. With suitable wording changes, A16 should be incorporated into paragraph 11.

7. Weak language in the Application and Other 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. The following illustrate this problem. Note that in none of these cases would our recommended changes result in the creation of a requirement:



Ref.	Comment
A12 & 13	<ul style="list-style-type: none"><li data-bbox="537 716 1203 863">• In A12 it is <u>always</u> relevant to consider whether the expert’s work is subject to technical performance standards, etc. “May be” should be replaced with “is”.<li data-bbox="537 894 1195 968">• Similarly, in A13, “may be” should be replaced with “are”. <p data-bbox="537 999 1227 1146">Note also that A12 says “it may be relevant to consider”, while A13 simply says it “may be relevant” (and is itself too weak, as noted). More parallel wording would improve clarity.</p>
A25	“may assist” should be “assists”. When would identification of who will liaise with the expert not assist timely and effective communication?
A26	“may affect” on line 3 should be “affects”. There is no case where such considerations would not affect the nature, timing and extent of procedures.
A31	Drop the word “may”. All three of these criteria are always relevant when evaluating the expert’s assumptions and methods.



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8. Other matters

Ref.	Comment
6(d)	We have seen cases where an auditor's internal expert is not part of the engagement team, but is treated as an independent expert. Also, we have seen situations where an external expert is contracted to be part of the engagement team, such that all his or her working papers are included with the engagement team's documentation. Neither of these situations would be permitted in this ED.
A28	Change the lead-in to read "Relevant factors when considering the relevance and reasonableness of the findings... include (or may include):"
A36	Should this not apply only to external experts? In Canada, permission would be required.

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

Yours truly,

Keith Boocock
Chief Executive Officer

cc. Mr. Greg Shields, CA
Director, Auditing and Assurance Standards
Canadian Institute of Chartered Accountants