

February 15, 2008

Mr. James Sylph
Technical Director, IAASB
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Exposure Draft: *Proposed Revised and Redrafted International Standard on Auditing (ISA) 620, Using the Work of an Auditor's Expert*

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to have the opportunity to comment on the above referenced exposure draft.

We would like to commend the International Auditing and Assurance Standards Board (IAASB) on the issuance of this exposure draft. We believe that the exposure draft clarifies the auditor's responsibilities with respect to auditor's use of an auditor's expert and we support its issuance. We also believe that the objective to be achieved by the auditor is appropriate, and that the criteria for determining whether a requirement should be specified have been applied appropriately and consistently.

Below are the responses to the questions for respondents and more specific comments on the proposed ISA 620 exposure draft follows.

Responses to Questions for Respondents

Q1. *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).*

We support the separation of the use of Auditor's Expert and Management's Experts matters. We believe that this separation adds clarity and provides more focused guidance to practitioners. While we support the conforming amendments to proposed ISA 500, *Considering the Relevance and Reliability of Audit Evidence*, to deal with the auditor's use of management's expert, we believe that a separate standard would be preferable.

The amendments to proposed ISA 500 establish requirements and provide guidance to auditors on the use of audit evidence obtained from management's expert in the context of evaluating the relevance and reliability of the audit evidence. We believe that a separate standard that establishes explicit requirements of the auditor would be more suitable. Examples of such requirements would include:

- Evaluate the expert's competence and the entity's ability to control or significantly influence the expert's findings
- Obtain an understanding of the expert's work
- Perform procedures to evaluate the reasonableness of the significant methods and assumptions
- Test the data
- Evaluate the expert's findings
- Evaluate the sufficiency of the audit evidence to support assertions
- Documentation

In addition to the specific requirements, there are ancillary issues related to the use of management's expert that may warrant specific guidance. For example, 1) an auditor should consider whether the failure of management to employ or engage an expert, where needed, might constitute a material weakness or a scope limitation or 2) management's use of an expert employed by the auditor might impair the auditor's independence.

We believe the use of the results of management's experts as audit evidence is complex and requires explicit requirements and detailed application guidance. Therefore, we recommend that the IAASB consider developing a separate standard to elaborate more fully on the matter.

Q2. 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.

We fully support the definition of an "expert" as set forth in the proposed ISA and the underlying notion that expertise in accounting and auditing is a fundamental requirement for all auditors. However, the distinction between expertise in accounting and auditing and expertise in fields other than accounting and auditing in paragraph A1 needs to be clearer. Page 6 of the explanatory memorandum states, in part:

...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.

We believe that this content provides good application guidance to the auditor and should be included in paragraph A1 of the proposed ISA. This would help clarify that any references to "expertise" in relation to financial instruments or taxes does not refer to knowledge or competence in the accounting for them.

We offer the following specific comments: Suggested new language is shown in boldface; suggested deleted language is shown by strikethrough. Italicized text is used to add emphasis.

Paragraph 3

To make the paragraph clearer and to stress the importance of the auditor's responsibility, we suggest the following change:

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. 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.~~

Paragraph 8

Paragraphs 8-13 establish requirements of the auditor to: 1) determine the nature, timing and extent of audit procedures; 2) evaluate the capabilities, competence and objectivity of the auditor's expert; 3) obtain an understanding of the field of expertise of the auditor's expert; 4) obtain an agreement with the auditor's expert; and 5) evaluate the adequacy of the auditor's expert's work. We believe that the term "for purposes of the audit" used in these paragraphs lacks specificity and should be more precise.

Paragraph A7 explains that an auditor's expert may be needed to assist the auditor in obtaining an understanding of the entity; identifying and assessing the risks of material misstatements; determining and implementing overall responses; and determining and performing further audit procedures. The standards to which these procedures refer are ISA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*, and ISA 330, *The Auditor's Response to Assessed Risks*. ISAs 315 and 330 require that the procedures be performed at the assertion level.

To be consistent with ISAs 315 and 330, we recommend that the requirements in paragraphs 8-13, where appropriate, clarify that the audit evidence obtained from an auditor's expert is used to support an assertion in a class of transactions, account balance or disclosure. To do that, we suggest including a footnote to explain the term "for the purposes of the audit" used throughout the proposed ISA. We suggest the following footnote:

Consistent with ISA 315, "for the purposes of the audit" means "to support an assertion in a class of transactions, account balance or disclosure."

Also, sub-paragraph 8(e) contains a reference to paragraph A9. We believe that paragraph A9 is application material to paragraph 8 as a whole and therefore recommend that the reference be moved to the introductory paragraph.

We also suggest that the term “risks of material misstatement” be defined by adding a footnote reference in paragraph 8(b) to ISA 200, *Objective and General Principles Governing an Audit of Financial Statements* where the term is defined.

Paragraph A5, third bullet

We suggest the following editorial change:

The materiality of the matter, and the risks of *material* misstatement.

Paragraph A22

Paragraph A22 provides application guidance to the requirement that the auditor agree, in writing when appropriate, with the expert: (a) the nature, scope and objectives of the expert’s work; (b) the respective roles of the auditor and the expert; and (c) the nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by the expert. It explains that the auditors may demonstrate evidence of an agreement in a planning memorandum, in the policies and procedures of the firm (when the auditor’s expert is a member of the engagement team) or an engagement letter. We believe that, as written, the paragraph is not clear as it suggests that in the case of an auditor’s external expert, the auditor may evidence an agreement with an auditor’s external expert in a planning memorandum or in the firm’s policies and procedures. We believe that it is preferable that an auditor obtains an engagement letter when he or she engages an external expert. Therefore, we suggest the following editorial change:

A22. When an auditor engages an external expert, evidence of the agreement may be included in an engagement letter.

A22X. For experts employed by the auditor, 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.

Paragraph A23

Paragraph A23 provides examples of the matters with which the auditor and the auditor's expert may reach an agreement with respect to their respective roles in an audit. The appendix also contains examples of the matters with which the auditor and the auditor's expert may reach an agreement with respect to their respective roles in an audit, some of which are included in paragraph A23 and some of which are not. We believe that the examples provided in the appendix that are not included in paragraph A23 are as important as those provided in paragraph A23. To avoid the perception that the matters identified in paragraph A23 are more important than those identified in the appendix, we recommend that all examples be included in the application material.

Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this letter, please contact Hiram Hasty at +1-212-596-6011, hhasty@aicpa.org or Sharon Walker at +1-212-596-6026, swalker@aicpa.org.

Respectfully submitted,

/s/ Harold Monk, Jr.
Chair, Auditing Standards Board