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10 October 2012

Ref.: AUD/PRJ/HBL/NRO/SHA

Dear Sir or Madam,

**Re: FEE Comments on the IVSC Exposure Draft “The Role of the Professional Valuer in the Audit Process”**

The Federation of European Accountants<sup>1</sup> (FEE) read with great interest the Exposure Draft (ED) published by the IVSC in June 2012: “The Role of the Professional Valuer in the Audit Process”.

As a representative of the audit profession in Europe, we are delighted to share some views on key areas, as well as a copy of the FEE Responses to the IAASB Exposure Draft on related ISAs published in relation to the role of experts appointed in the course of the audit<sup>2</sup>.

**Responses to Questions**

**Question 1 The Board has identified two principal areas where professional valuers may need guidance on the role or the auditor and the audit process. The first is when acting as an auditor’s expert; the second is when acting for an entity in**

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<sup>1</sup> FEE (Fédération des Experts comptables Européens - Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 45 institutes of professional accountants and auditors from 33 European countries, including all of the 27 European Union (EU) Member States. FEE has a combined membership of more than 700.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

<sup>2</sup> The FEE response to the Exposure Draft – Proposed Revised and Redrafted **ISA 620** on Using the Work of an Auditor’s Expert – can be downloaded from the following link:  
<http://www.fee.be/fileupload/upload/Sylph%20080215%20ISA%206202252008531530.pdf>

The FEE response to the Exposure Draft – Proposed **ISA 220** (Redrafted), Quality Control for an Audit of Financial Statements and **ISQC 1** (Redrafted), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagement – can be downloaded from the following link:  
[http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=847](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=847)

providing valuations that will be included in a financial statement that will be subject to audit.

**a) Do you agree that these are the only two roles in respect of which valuers need guidance on audit procedures? If not please identify the additional roles of which you are aware.**

**b) Do you consider that the distinction between the two roles is clearly explained?**

FEE did not identify such additional roles in our response to the 2007 IAASB ED on ISA 620.

In this respect, it has to be noted that the two principal areas where professional valuers may need guidance, as defined by the IVSC, are in accordance with the definition given in the ISAs. According to ISAs, the experts to be used by auditors are in two categories, which are as follows:

- An **auditor's expert**, defined as an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert;
- A **management's expert**, defined as an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

FEE would greatly appreciate consistency between the International Standards of Auditing and the Guidance published by IVSC in the ED.

**Question 2 In paragraph 15 an extract from ISA 620 is provided which explains that an auditor's expert may be either internal (i.e. a partner or member of staff in the auditor's firm or of a network firm) or external. The draft Guide proposes that no distinction is necessary between these roles, and that the guidance provided is applicable to both situations. Do you agree with this conclusion? If you believe that distinction can be drawn, for example that some of the guidance may not be applicable to a valuer acting as an internal expert, please identify the distinction and if you believe that additional guidance specific to each role should be provided.**

As noted in the FEE response to the 2007 IAASB ED on ISA 620, FEE agrees that no distinction should be made in the requirements to be applied, the auditor's expert be either internal or external. The auditor would, as a minimum, always need to consider the competence and objectivity of any experts providing expertise in a field other than accounting or auditing irrespective of whether they are on the engagement team or merely have a consultative role.

**Question 3** In the section “Planning the Assignment” (paras 21-24) the proposed guidance recommends close liaison with the auditor and that a valuer appointed as an auditor’s expert should regard themselves as a member of the auditors team and be prepared to accept direction from the auditor. The Board is aware that some professional valuers believe that close liaison with a client, whether it be an auditor or not, may threaten their independence and objectivity. The Board does not consider this to be the case given that both the auditor and any experts the auditor appoints are required to provide an independent and objective view of the reasonableness of the valuation measurements provided by the entity’s management. *Do you agree with the Board’s view? If not please give an example of how a professional valuers objectivity may be compromised through close cooperation with an auditor when acting as an auditor’s expert.*

FEE agrees with the Board’s view, which aligns with the positions FEE took in its response letter on the 2007 IAASB ED on ISA 620. As the auditor bears the full responsibility for the audit assignment, it is very important that any experts be prepared to accept direction from the auditor in the course of the engagement.

FEE would like to point out that, according to the ISAs, the definition of the engagement team explicitly excludes an auditor’s external expert, as stated in ISA 220<sup>3</sup>. Indeed, there needs to be a differentiation for the purposes of evaluating the objectivity of an auditor’s external expert and ensuring the auditor’s own independence: ISA 220 paragraph 9 and sequence deal with the independence of the members of the engagement team, whereas ISA 620 paragraph 9 deals with the auditor’s evaluation of the external expert’s objectivity.

With regard to independence and objectivity, the auditor has robust safeguards to prevent such prejudice, including requirements as prescribed in ISA 620 for the auditor’s external expert. The IVCS may wish to refer to the International Code of Ethics published by the International Ethics Standard Board (IESBA), as well as the International Standard of Quality Control (ISQC) 1 published by the IAASB<sup>4</sup>.

**Question 4** Paragraph 25 indicates that if a professional valuer follows the IVSs and any relevant Technical Information Papers or other guidance issued by the IVSC or other organisations it assists the auditor in verifying that the work is in accordance with applicable standards. The reference to “other organisations” was included because the Board recognises that IVSC is not the exclusive provider of valuation guidance, and that guidance issued by other organisations may be accepted by consensus under certain circumstances. However, it has been argued that an unqualified reference to “other organisations” may appear to mandate the use of guidance that is inconsistent with IVSC pronouncements and seems to encourage,

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<sup>3</sup> ISA 220 “Quality Control for an Audit of Financial Statements” paragraph 7 (d)

<sup>4</sup> See Response to Question 6

**rather than reduce, diversity. Do you agree that reference should be made to the existence of other organisations guidance or other pronouncements in this Guide? If so do you consider that either some qualification or limitation should be provided, or a list of other organisations deemed to issue appropriate valuation guidance be included?**

FEE agrees with the reference to “other organisations” as IVSC can not be expected to be the exclusive provider of valuation guidance, for instance a national provider of valuation guidance may exist in certain countries. The profession of valuers is broad and IVSC has to take into account this diversity in the guidance published. While this reference may be seen as potentially creating room for inconsistency, FEE emphasises on the fact that the auditor, within the framework of his/her consideration of the acceptance of an expert, has to assess the independence of the appointed expert, as well as the work performed. This is in line with the positions taken by FEE in its response letter on the 2007 IAASB ED on ISA 620. Therefore, this reference to other organisations should not result in any issues with regards to the auditor’s responsibility towards the appointed expert.

**Question 5 The section “Scope of Work” (paras 25-32) indicates that a valuer acting as an auditor’s expert may only be required to review aspects of a valuation provided by either management or a valuer appointed by management. IVS 101 Scope of Work allows significant flexibility in defining the extent of investigation and valuation advice to be provided. If any of the report contents specified in IVS 103 are not required those excluded just need to be identified in the scope of work document. Do you consider that the guidance provided in the “Scope of Work” section of this document for a valuer undertaking a limited review of a reporting entity’s valuation when acting as an auditor’s expert is sufficient? If not what aspects do you consider merit further attention?**

FEE does not have views on the “Scope of Work” of valuers, as defined in the guidance provided in the ED. The FEE position in the response letter on the 2007 IAASB ED on ISA 620 goes along with the prescriptions of ISA 620 Paragraph 9. Indeed, the auditor will have to evaluate whether the appointed expert is competent, capable and independent with regard to the assignment.

**Question 6 Appendix 1 “Resources” contains a list of other documents that are relevant to this guidance and which provide further reading on this topic. Do you consider that there are other relevant and useful documents that could be included?**

According to the response to Question 3, FEE considers that reference could be made to further material from the IAASB, including the following standards:

- ISA 220 “Quality Control for an Audit of Financial Statements”<sup>5</sup>: paragraph 14 gives insights into the procedures to be performed by the expert, on which the engagement partner relies. In addition, we can also refer to the Other Explanatory Material of this Standard, and especially paragraphs A 10 and A 20, where special considerations are given when using the work of an expert.
- International Standard on Quality Control (ISQC) 1 “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”<sup>6</sup>: this International Standard deals with the audit firm’s responsibilities for its system of quality control. This Standard may help the valuers understand the requirements of quality review and the implications for the engagement partner to rely on the work of experts, including valuers.

**Question 7 The proposed guidance is intended to be capable of global application across different jurisdictions. The intention is to focus on broadly applicable principles and to avoid detailed descriptions of aspects of either the role of the auditor or a valuer involved in the audit process. *Do you believe that the guidance contains an appropriate level of detail for a global audience? If not, please specify where you consider more or less detail is required, or any omissions that you consider to be material.***

FEE is generally supportive of international and globally applicable standards and guidance which are principles-based rather than being based on detailed rules. The level of detail proposed in the IVSC ED appears acceptable in that context.

For further information on this letter, please contact Mrs. Hilde Blomme at +32 2 285 40 77 or via email at [hilde.blomme@fee.be](mailto:hilde.blomme@fee.be) or Mrs. Noémi Robert at +32 2 285 40 80 or via email at [noemi.robert@fee.be](mailto:noemi.robert@fee.be) from the FEE Secretariat.

Yours sincerely,



Philip Johnson  
President

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<sup>5</sup> <http://www.ifac.org/sites/default/files/publications/files/A011%202012%20IAASB%20Handbook%20ISA%20220.pdf>

<sup>6</sup> <http://www.ifac.org/sites/default/files/publications/files/A008%202012%20IAASB%20Handbook%20ISQC%201.pdf>