

Report Back – Use of Experts Project

1. Below are extracts from the draft minutes of the March 2023 IESBA CAG session¹ and an indication of how the Task Force or the IESBA has responded to the CAG’s comments.

Matters Raised	Task Force/ IESBA Response
ETHICAL (INCLUDING INDEPENDENCE) BEHAVIOR EXPECTED WHEN USING THE WORK OF EXPERTS	
<p>Mr. Hansen questioned whether there is a different ethical expectation when PAs use the work of an expert that is engaged by a firm (external expert) versus an expert that is engaged by a client (management’s expert). He noted that in the latter case, that expertise is just as valuable as if the auditor had engaged the expert.</p>	<p>Point addressed in proposed definition of an expert, which excludes a management’s expert.</p> <p>The Task Force considered that industry experts often have skill sets that are difficult to find. Nevertheless, a management’s expert is clearly not independent of the client.</p> <p>The Task Force’s view is that the work of a management’s expert is akin to management’s books and records. That is, it is just part of the overall information that a PA considers in providing any professional service. In particular, a management’s expert is presumed to be as objective as the client itself since the expert is employed or engaged by the client.</p>
<p>Mr. Sobel expressed support for the preliminary approach and encouraged the Task Force to develop the provisions in a principles-based manner.</p>	<p>Support noted.</p>
<p>Mr. Dalkin noted that experts could perform work that is very significant and material to the financial statements.</p> <p>He also highlighted that the Task Force’s approach should address circumstances where an expert also acts as an assurance provider on a specific subject matter, which might be common when there is a limited number of experts in the field or area regarding such subject matter.</p>	<p>Point noted.</p> <p>The Task Force also notes that where an expert also acts as a sustainability assurance provider and is applying the independence standards in the proposed Part 5, such circumstances would be caught under the self-review threat provisions in the non-assurance services (NAS) independence provisions in the proposed Part 5.</p> <p>If the expert is providing assurance services on subject matters other than sustainability</p>

¹ The draft March 2023 IESBA CAG session minutes will be approved at the September 2023 IESBA CAG meeting.

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	information, the provisions in proposed Sections 390 and 290 would address consideration of their objectivity with respect to the use of their work as an expert.
Mr. Greene noted that an expert can either be internally employed or externally engaged by either a client or a firm. He encouraged the Task Force to consider delineating the approach in such a manner. He also emphasized the importance of a PA performing procedures over the expert's work before determining whether to rely on it.	Point addressed in proposed new Sections 390 and 290.
Noting that the sustainability ethics and independence provisions would be profession-agnostic, Mr. Ishiwata questioned whether the provisions to address using the work of experts would also be profession-agnostic. In this regard, he noted that the provisions should also address the use of experts by non-PA sustainability assurance providers. He also emphasized the importance of coordinating with the IAASB, noting that proposed ISSA 5000, ISA 620, and ISA 500 all refer to the use of experts as well.	Point addressed in proposed new equivalent section of 390 for the proposed Part 5 (ethics and independence standards for sustainability assurance). The Task Force has drafted the provisions so that they can readily be extended to profession-agnostic ethics standards in the context of sustainability assurance engagements.
Mr. Frtiz questioned if the Task Force had considered developments in some firms that are considering splitting their business so that some experts will move to the advisory part of their business. He wondered how the independence considerations should be addressed in this case.	Point addressed in proposed new Section 390.
Ms. McGeachy-Colby commented that it would be challenging to require experts to apply the provisions. She also questioned how the provisions would apply in smaller jurisdictions where there are a limited number of experts. She was concerned that the proposals could create constraints for SMPs in terms of being able to access the best experts.	Point noted. The Task Force believes that the competence, capabilities and objectivity of an expert cannot be less relevant or lower in jurisdictions/fields with a low number of experts. In considering the challenge, which is a matter of timing as the market capacity adjusts to the demand, the Task Force has considered the public interest of allowing the market to make the transitional adjustments. Therefore, the Task Force will consider in due course whether it is appropriate

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	to develop appropriate transitional provisions.
<p>Ms. Mubarak commented that it is challenging for regulators and auditors to assess the competence and capabilities of an expert. For example, an auditor might use an expert because the auditor lacks expertise in a specific subject matter, and therefore the auditor cannot assess the expert's competence or capabilities in such subject matter.</p>	<p>Point noted.</p> <p>Guidance on assessing the competence and capabilities of an expert has been provided in the new proposed Sections.</p>
<p>Mr. Norberg noted that in implementing the proposals, the firm would need to be the one requiring the external expert's compliance with the provisions and therefore needing to assess such compliance.</p> <p>From a market perspective, he wondered why the external expert should go directly to the auditor vs. going to the client to avoid all the independence requirements. Nevertheless, he noted that the market impact should not influence the development of the independence provisions.</p>	<p>Point noted.</p> <p>Given the mixed feedback from the global roundtables on the Task Force's initial thinking presented in March 2023, including concerns raised over implementability, subjectivity and enforceability, the Task Force has proposed a new approach which involves evaluating the objectivity of the external expert. That is, the onus is on the PA to determine whether the work of the external expert can be used. If the external expert is determined to be not objective, their work cannot be used.</p> <p>In particular, for external experts used in an audit or assurance context, additional factors for evaluating the external expert's objectivity have been set out, which are based on the independence attributes in Parts 4A and 4B of the Code.</p>
<p>Mr. Sullivan expressed the view that the issue is almost always material when an expert is used. He also questioned the statement that external experts are not under the direction and supervision of the engagement partner. In his view, whenever an expert is used, there certainly needs to be direction and supervision.</p>	<p>Point noted. The Task Force's proposed approach is applicable to all experts now.</p>

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<p>POSSIBLE APPROACHES TO ASSESSING INDEPENDENCE OF EXTERNAL EXPERTS</p> <p>OPTION A: COMPLY WITH PART 4A FOR AUDIT AND REVIEW ENGAGEMENTS</p> <p>OPTION B: COMPLY WITH ET-GA REVISIONS FOR INDIVIDUALS OUT-OF-NETWORK WHO ARE PART OF AUDIT TEAM (PART 4A WITHIN A LIMITED PERIMETER)</p> <p>OPTION C: COMPLY WITH SELECT INDEPENDENCE REQUIREMENTS SPECIFIC TO THE EXTERNAL EXPERT USED (INTRODUCE A “SIGNIFICANT INFLUENCE TEST”)</p>	
<p>Ms. Blomme expressed support for option C due to the scarcity of some types of experts.</p> <p>She noted that an expert needs to be assessed also with respect to the expert’s work so that the engagement can be signed off. For example, consideration should be given to whether the expert’s work is free of bias. She also commented that it cannot practically be expected that the external expert goes through the same independence provisions as a PA.</p>	<p>Points noted.</p> <p>Given the mixed feedback from the global roundtables on the Task Force’s initial thinking presented in March 2023, the proposed new Section 390 and the equivalent Section in Part 5 take an approach of the PA evaluating the objectivity of the external expert. That is, the onus is on the PA to determine whether the work of the external expert can be used. If the external expert is determined to be not objective, their work cannot be used.</p>
<p>Ms. Meng expressed support for option C but noted that the expert’s judgment involves an element of subjectivity. In this regard, she encouraged additional guidance to be developed so that the “significant influence test” can be applied consistently. She also noted that the approach should not be limited to addressing experts used in sustainability assurance.</p>	<p>This approach recognizes stakeholders’ heightened expectations of independence in relation to external experts used in audit or other assurance (including sustainability assurance) engagements, given the public interest importance of the audit or assurance report as it is relied upon by stakeholders for decision-making.</p> <p>Specifically, the revised approach moves away from the concept of a significant influence test that would only apply select independence requirements to a limited pool of external experts that meet the “significant influence” threshold, and instead broadens the applicability of the proposed provisions to all external experts.</p>
<p>Mr. Yurdakul expressed support for option B, noting that option A has practical limitations and option C raises questions such as how the level of influence would be measured, and whether it is the significance of the outcome of the expert’s work to the financial statements or the materiality of the expert’s service.</p>	<p>At the same time, the approach also recognizes that external experts generally do not have the systems of quality management that PA firms must design, implement and operate to monitor independence for engagement team (ET) and other audit/assurance (including sustainability assurance) team (AT) members. It also recognizes that external experts are not, as defined, ET or AT members.</p>
<p>Mr. Ishiwata and Ms. Gamboa expressed support for option C and encouraged additional guidance to be developed so that the application of the “significant influence test” can be consistent.</p>	<p>Therefore, to address stakeholders’ heightened</p>
<p>Mr. Norberg expressed support for option C as it is more balanced.</p>	<p>Therefore, to address stakeholders’ heightened</p>

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<p>Mr. Thomson expressed support for option C. However, he questioned what the likelihood might be that the expert's work would significantly influence the outcome of the engagement.</p>	<p>expectations in relation to external experts used in audit or other assurance engagements, the Task Force proposes an approach that additionally requires a PA to evaluate specific interests, relationships and circumstances relative to the external expert's objectivity. These additional specific considerations are aligned with the independence attributes required for ET and other AT members as set out in Parts 4A and 4B of the Code. If the PA concludes that an external expert is not objective based on the evaluation of such independence attributes, the PA cannot use the work of the external expert.</p>
<p>Ms. Manabat expressed support for option C, noting that it is rooted in the exercise of professional judgment.</p>	
<p>Mr. Hansen considered the scenario where an engagement partner essentially becomes a general contractor due to the use of multiple experts. He emphasized the importance of the engagement partner taking ultimate responsibility for using an expert's work.</p> <p>He also suggested that the Task Force also considers the approach for internal experts versus external experts, including how they were hired, and whether they should be independent versus objective.</p> <p>Finally, he pointed out that the PCAOB had issued updated guidance in relation to the use of experts.</p>	<p>Points addressed in the proposed new Sections.</p> <p>The Task Force has also noted the updated PCAOB guidance.</p>
<p>He also encouraged the Task Force to go through the Public Interest Framework for each approach to determine which approach would be most responsive to the public interest.</p>	<p>Point addressed, see IESBA September 2023 Agenda Item 7-A.</p>