

Gabriela Figueiredo Dias,
Chair
International Ethics Standard Board
for Accountants (IESBA)

Sent via IESBA website

Brussels, 30 April 2024

Subject: IESBA's Exposure Draft on Using the Work of an External Expert

Dear Gabriela,

Accountancy Europe is pleased to provide you with its comments on the IESBA's Exposure Draft on Using the Work of an External Expert.

Professional accountants (PA) and sustainability assurance practitioners (SAP) increasingly use the work of external experts in areas such as technology and sustainability in order to deliver consistently high-quality services. In this regard, we welcome IESBA's decision to address ethics implications of using experts in professional engagements. However as set out below and in our responses to the questions, we have concerns with the specific requirements as proposed in the Exposure Draft.

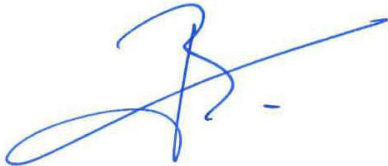
The Code should aim for the highest level of ethical standards while not discouraging PAs and SAPs to use external experts on their engagements as involving experts supports the quality of services performed.

The ultimate responsibility for the quality of the service always lies with the PA/SAP and the exposure draft along with the explanatory memorandum does not sufficiently recognise this.

In addition, proposed provisions are not responsive to the public interest as they will lead to unintended consequences – for Small and Medium Practices (SMPs) in particular – due to the potential inability to use experts, excessive administrative burden and costs introduced. In fact, we do not agree with the IESBA's assumption that the evaluation of competence, capabilities and objectivity is a pure binary exercise. Finally, the proposals contradict with IAASB standards which will result in confusion and inconsistency in practice.

We thank you for the opportunity to comment on this very important piece. For further information on this letter, please contact Harun Saki at harun@accountancyeurope.eu.

Sincerely,



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX - REQUEST FOR SPECIFIC COMMENTS

Glossary

1. *Do respondents support the proposals set out in the glossary concerning the proposed new and revised definitions?*

Yes, we broadly support the definitions except for our considerations mentioned below.

We believe that the definition of expertise should include experience. Sustainability is a rapidly expanding field where the demand for expertise generally exceeds the talent available. Professional qualifications are also in the early stages of development. Accordingly, being equipped with practical experience becomes as crucial as possessing knowledge and skills in this field. This is recognised in ISA 620 which defines expertise as knowledge, skills and experience.

As a principle, the IESBA and the IAASB should coordinate and align their terminology to the maximum extent possible. Therefore, there is a further need for the IESBA to work together with the IAASB on this project and to align their respective standards, including any definitions used. The main objective of this coordination should be to avoid confusion.

Finally, it should be further clarified in the definition what “outside the professional accountant’s or sustainability assurance provider’s competence” means in the context of providing non-assurance services. Otherwise, the external expert definition may unintentionally scope in subcontractors who are hired as additional resources by the PA/SAP when providing a non-assurance service.

Evaluation of CCO for all Professional Services and Activities

2. *Do respondents support the approach regarding evaluating an external expert's competence, capabilities and objectivity? Are there other considerations that should be incorporated in the evaluation of CCO specific to PAIBs, PAPPs and SAPs?*

No, we do not support IESBA’s approach.

We agree that PAs and SAPs, when providing audit or assurance engagements, should use the work of external experts only if they have the necessary level of competence, capabilities and objectivity to deliver the work needed for their services. These factors are already considered by professional accountants when applying ISA 620 and complying with the fundamental principles of the Code.

However, we disagree with the proposed binary test as in practice and under ISA 620, PAs evaluate the level of an expert’s CCO and determine the implications for their purposes. In addition to this evaluation, they also assess the output of the work performed by the expert.

Considerations related to objectivity should also differ between assurance, including audit, and non-assurance services. For non-assurance services, the proposal should provide for more flexibility and allow PAs to only evaluate whether there is any bias, conflict of interest or undue influence that might affect the external expert’s work. If so, the PA should also be allowed to consider whether there are any safeguards that can be applied to ensure the work of the external expert can still be used. See also our response to Question 4.

In addition, the factors listed in paragraph 390.6 A6 seem to oblige searching for external sources of information instead of obtaining such information directly from the external expert which creates excessive burden and practical issues.

3. *Do respondents agree that if an external expert is not competent, capable or objective, the Code should prohibit the PA or SAP from using their work?*

No, we do not agree with the prohibition because it assumes that the evaluation of CCO is a binary test and proposed provisions do not allow for any alternatives.

We do, however, agree with a requirement to evaluate the external expert's CCO in the context of an audit or assurance engagement as such requirement is already expected under ISA 620. However, the proposed provisions contradict the requirements in the ISAs, and might lead to a situation where the work of an external expert cannot be used on an audit when they don't have the necessary CCO. This is contradictory to ISA 620, which provides for a mechanism for the auditor to use the work even if the external expert has interests or relationships that require safeguards for the auditor to be comfortable with their CCO (See ISA 620, paragraphs 9 and 10, and related application material).

Evaluation of CCO for Audit or Other Assurance Engagements

4. *In the context of an audit or other assurance (including sustainability assurance) engagement, do respondents agree that the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts? If not, what other considerations would help to address the heightened public interest expectations?*

No, we do not agree that the provisions are responsive to the public interest.

The list in paragraphs R390.8 and R5390.8 has been derived from the extant Code's sections on independence and essentially requires the PA/SAP to evaluate the external expert's objectivity through the lens of independence instead of focusing on matters related to objectivity like bias, conflicts of interest and undue influence.

Proposed requirements also contradict with ISA 620 which does not have a strict prohibition and focuses on assessing the work of the expert as well. Therefore, IESBA's proposals will limit the use of experts by auditors in practice and implicitly implies that currently, auditors applying ISA 620 are not in compliance with the Code.

We believe that requiring PA/SAPs to request the external expert to provide information about specific interests, relationships and circumstances including for their immediate family, team members and employing organization with respect to the period covered by the audit/assurance report and the engagement period is too onerous. This will most likely discourage experts to work with PA/SAPs and thus will create a risk for quality in audit and assurance services. This risk is heightened by the fact that there is already scarcity of expertise in the emerging and evolving fields. In this context, the list in proposed paragraphs R390.8 and R5390.8 should be included in application material for a PA/SAP's consideration rather than being a requirement.

We also disagree with the IESBA premise that an external expert would not need to have a system of quality management to be able provide the information requested by PA/SAPs under the proposal. There are also broader considerations, such as data privacy and confidentiality, which seem to have been overlooked.

Finally, R390.8 and R5390.8 require that the information should be with respect to the period covered by the audit or (sustainability) assurance report and the engagement period, which is excessively long since the expert may only be on the engagement for a short period of time. Hence, we are concerned with operability and enforceability of this approach (i.e. evaluating the external expert's objectivity through the lens of independence).

Potential Threats Arising from Using the Work of an External Expert

5. *Do respondents support the provisions that guide PAs or SAPs in applying the conceptual framework when using the work of an external expert? Are there other considerations that should be included?*

Although we agree that additional threats may be relevant when using the work of an expert, we are not sure if proposed provisions add value since the conceptual framework already includes general requirements and guidance in identifying, evaluating and addressing the threats to compliance with fundamental principles. Furthermore, PA/SAPs will most likely evaluate all relevant threats concurrently while they evaluate whether the external expert has adequate level of competence, capabilities and objectivity.

Other Matters

We do not agree that scalability is already built into the objectivity approach for external experts used in an audit or assurance engagements just because it is based on the nature of the engagement and the PA/SAP's evaluation of the expert's interests, relationships and circumstances.

We are also concerned that the proposals may lead to Small and Medium Practices (SMPs) being at a disadvantage since they may not ordinarily have in-house experts in all areas and thus use external experts more frequently than larger firms.

We also disagree with the requirement proposed by paragraphs R290.13, R390.18 and R5390.18 that is relevant when a PA/SAP uses the work of more than one external expert. In any case, a PA/SAP will have considered the potential threats created by using each external expert individually. We do not think there could be a combined effect creating additional threats or impacting the level of existing threats, due to the involvement of multiple external experts. The only relevant consideration for the PA/SAP in using numerous experts will be in relation to the principles of professional competence and due care. In line with these principles, PA/SAPs need to determine whether the engagement team possesses the necessary competencies to perform the professional service.

Finally, we believe that PAIBs should communicate only significant matters to those charged with governance. In this regard, we believe that there is no need for specifically encouraging PAIBs to communicate matters related to external experts with management and those charged with governance as proposed by paragraph 290.15 A1.