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International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017

*Re: Using the Work of an External Expert*

Dear members of the International Ethics Standards Board for Accountants:

The Professional Ethics Executive Committee (PEEC), on behalf of the American Institute of Certified Public Accountants (AICPA), recognizes the efforts the International Ethics Standards Board for Accountants (IESBA) has put forth on its [Using the Work of an External Expert exposure draft](#) (the exposure draft) with the intent to strengthen the ethical expectations for professional accountants (PA) in public practice and in business, as well as for sustainability assurance providers (SAP) who are not PAs, when using the work of an external expert. PEEC appreciates the opportunity to provide feedback on the proposed standards to help inform IESBA's standard-setting process.

PEEC has significant concerns with the proposed standards as drafted. PEEC supports the concept of PAs<sup>1</sup> adhering to ethical standards when using the work of external experts and agrees that it is important for a PA to evaluate an expert's competence, capabilities, and objectivity. PEEC believes, however, that:

- The standards should not be profession-agnostic.
- Certain aspects of the proposed standards belong in performance standards.
- The proposed standards will be challenging for PAs and external experts to implement.
- The project timeline does not allow for an adequate cost/benefit analysis and the possibility of re-exposure.

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<sup>1</sup> We are responding to the exposure draft only in the context of PAs since SAPs who are not PAs are outside of the AICPA's purview. Many of PEEC's concerns, however, extend to the exposure draft more broadly, including those relating to lack of clarity and implementability.

## Regulatory and enforcement oversight observations

IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities. In PEEC's capacity as a national standard setter and enforcement body, we offer the following observations:

### Protecting the public interest

Broadening IESBA standard setting beyond accountants is highly problematic and is not in the public interest, as it will result in stakeholder confusion, dilution of the standards for PAs, and erosion of public trust.

The remit of IESBA is setting ethical standards for professional accountants under the oversight of the Public Interest Oversight Board (PIOB). IESBA develops standards with the intention to adhere to the Public Interest Framework (framework), which establishes the development and oversight of international audit-related standards that are responsive to the public interest. The framework includes, among other characteristics, clarity, timeliness in addressing identified needs without sacrificing quality, implementability, enforceability, and consistent and global application. The proposed standards do not meet these characteristics.

#### *Clarity*

IESBA standards utilize terms and concepts specifically understood by professional accountants, supported by education, training, experience and national standards and guidance. Many of these terms and concepts have subjective elements and require the use of professional judgment. Those without the equivalent level of training and experience of PAs may be challenged to understand and apply such terms and concepts appropriately. This could have the unintended consequence of giving those attempting to utilize or understand the application of the standards, users of the work, and other stakeholders a false sense of compliance.

#### *Timeliness in addressing identified needs without sacrificing quality*

IESBA intends to finalize and approve the proposed standards by December 2024, which we acknowledge is driven by the attempt to align with the proposed sustainability standards. However, this timing creates tremendous pressure to conclude that re-exposure is unnecessary, regardless of the feedback received on the exposure draft. It is not in the public interest to rush due process. Additional research is needed to demonstrate that the proposals could be implemented in a cost-effective way that would also achieve the desired goal of public protection.

#### *Implementability and global operability*

The vast majority of input into IESBA's due process emanates from highly experienced accounting organizations, accounting firms and stakeholders with an understanding of accounting and auditing (including applicable ethical) standards, operability, financial statement reporting and related needs, and the public interest.

IESBA was created to facilitate global development and adoption of consistent ethics and independence standards for PAs and to minimize standard fragmentation. National standard setters may be unable to adopt non-PA codes of ethics. This could result in inconsistent adoption and enforcement of the requirements for PAs across jurisdictions, making convergence even more challenging and less likely. Moreover, national standard setters may lose confidence in IESBA's standard setting leadership if IESBA is no longer perceived as prioritizing standard setting for the benefit of PAs and their stakeholders. A loss of confidence in IESBA's standard setting leadership for licensed PAs contrasts with IFAC's objectives to serve the public interest by enhancing the relevance, reputation and value of the global accountancy profession.

### Erosion of public trust and public protection

In addition to the code, the public accounting profession has had requirements in place for decades that govern, discipline, and regulate PAs. The public and capital markets trust and rely on PAs because of the requirements that PAs obtain and maintain their credentials and licenses. These requirements include other public protections, such as robust performance and quality management standards, ongoing quality inspections, and stringent enforcement processes that identify and discipline those not in compliance with the requirements. Allowing non-PA assurance providers to use and cite the code when these other public protections are not in place may give the public the impression that those providers are subject to the same rigorous standards as PAs or even that those providers are PAs, when that may not be the case. This will create confusion, undermine the value of the PA credential, and dilute the strength of the IESBA standards over time.

### Request for specific comments

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

**Overall response:** No, with comments.

#### **Detailed comments:**

PEEC has concerns with the proposed new and revised definitions in the glossary, as they are not aligned with International Audit and Assurance Standards Board (IAASB) definitions. For example, as noted in Part III. A. of the explanatory memorandum (EM), IESBA proposed a definition of *expertise* that refers only to knowledge and skills, where the IAASB's definition of *expertise* is "skills, knowledge and experience in a particular field."

For the proposal to achieve the framework characteristic of implementability and global operability, it is critically important that IESBA and the IAASB are strategically aligned during the standard setting process. When the two boards are not aligned, the projects each board carries out will be inconsistent, making the standards inoperable.

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? See Section V.

**Overall response:** No, with comments below.

**Detailed comments:**

Though PEEC agrees that an external expert should have the necessary competence, capabilities, and objectivity for the purposes of the professional service or activity, the requirements to evaluate these characteristics and the decision to use the external expert's work belongs in performance standards.<sup>1</sup> The line between ethical and performance standards should be distinct. If IESBA has identified deficiencies in performance standards, it should identify a way to engage the appropriate parties to address those standards, instead of adding performance requirements to the code. Comingling performance standards in the ethical standards will lead to confusion and inconsistent application of the standards.

For example, proposed paragraphs R290.6, R390.6, and R5390.6 require a PA to evaluate whether the external expert has the necessary competence, capabilities, and objectivity (CCO) for the PA's purpose. Paragraph 59 of the EM acknowledges that this is conceptually aligned with the existing provisions in the audit and attest standards, and that IESBA believes the CCO evaluation is relevant to other professional services (i.e., non-assurance services [NAS] engagements) and professional activities. Including these performance requirements in the code is accordingly duplicative, will cause confusion for PAs, and will likely result in inconsistent application.

For example, the IAASB already requires PAs to evaluate an expert's competence, capabilities, and objectivity in ISA 620, ISAE 3000, and proposed ISSA 5000, as shown below. PAs performing engagements under these performance standards will be confused

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<sup>1</sup> In the United States, PAs must evaluate an external expert's CCO under the following specific performance standards, depending on the services they are providing.

- Auditing standards (Statements on Auditing Standards),
- Attestation standards (Statements on Standards for Attestation Engagements),
- Quality control standards (Statements on Quality Control Standards),
- Consulting standards (Statement on Standards for Consulting Services),
- Accounting and review services standards (Statements on Standards for Accounting and Review Services),
- Forensic services standards (Statement on Standards for Forensic Services),
- Valuation standards (Statement on Standards for Valuation Services)
- Tax standards (AICPA Statements on Standards for Tax Services); and
- Personal financial planning standards (AICPA Statement on Standards in Personal Financial Planning Services, or SSPFPS).

about the interoperability between the performance standards and the ethical standards.

- ISA 620, paragraph 9: “The auditor shall evaluate whether the auditor’s expert has the necessary competence, capabilities and objectivity for the auditor’s purposes. In the case of an auditor’s external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may cause a threat to that expert’s objectivity.”
- ISAE 3000, paragraph 52: “When the work of a practitioner’s expert is to be used, the practitioner shall also:
  - (a) Evaluate whether the practitioner’s expert has the necessary competence, capabilities and objectivity for the practitioner’s purposes. In the case of a practitioner’s external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert’s objectivity;
  - (b) Obtain a sufficient understanding of the field of expertise of the practitioner’s expert;
  - (c) Agree with the practitioner’s expert on the nature, scope and objectives of that expert’s work; and
  - (d) Evaluate the adequacy of the practitioner’s expert’s work for the practitioner’s purposes.”
- Proposed ISSA 5000, paragraph 49: “If the practitioner plans to use the work of a practitioner’s external expert, the practitioner shall:
  - (a) Evaluate whether the expert has the necessary competence, capabilities and objectivity for the practitioner’s purposes.
  - (b) When evaluating objectivity, inquire regarding interests and relationships that may create a threat to that expert’s objectivity;
  - (c) Obtain a sufficient understanding of the field of expertise of the expert to determine the nature, scope and objectives of that expert’s work for the practitioner’s purposes; and
  - (d) Agree with the expert on the nature, scope and objectives of that expert’s work.
  - (e) Evaluate the adequacy of the expert’s work for the practitioner’s purposes.”

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? See paragraphs 67 to 74.

**Overall response:** No, this requirement should not be in the code; as discussed in the response to question 2, it should be in appropriate performance standards.

**Detailed comments:**

The evaluation of an external expert's competence, capabilities, and objectivity as well as the determination whether to use of the work of that expert belongs in the performance standards and not the code, as explained in the response to question 2.

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? See Section (V)(A).

**Overall response:** No, with comments below.

**Detailed comments:**

The additional requirements for audit or other assurance engagements do not introduce an appropriate level of rigor in that they are too prescriptive. These additional independence attributes are already addressed more *broadly* in application guidance in the performance standards and should therefore not be addressed in ethical standards.

The objectivity evaluation and inquiry requirements are already addressed in the IAASB's audit and assurance standards, ISA 620, ISAE 3000, and proposed ISSA 5000. In these performance standards, a PA is required to broadly inquire regarding interests and relationships that may create a threat to the external expert's objectivity. Additionally, potential interests and relationships that may impact objectivity are described in the application material, not in requirement paragraphs. For example, paragraph A20 of ISA 620 states, "When evaluating the objectivity of an auditor's external expert, it may be relevant to:

- (a) Inquire of the entity about any known interests or relationships that the entity has with the auditor's external expert that may affect that expert's objectivity.
- (b) Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the auditor's expert include:

- Financial interests.

- Business and personal relationships.
- Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware.”

If IESBA decides not to remove the independence attributes from the code, PEEC recommends that these attributes be included in application material for consistency.

#### Implementation challenges

PEEC believes IESBA should remove paragraphs 390.7A1 through 390.11 A2 and paragraphs 5390.7 A1 through 5390.11 A2 (independence attributes). Below, we detail the challenges PAs, external experts, and clients will face in implementing these sections of the proposed standards in practice.

In the exposure draft, the additional requirements when an external expert is used in an audit or other assurance engagement are referred to as the independence attributes of the proposal. The EM explains that these requirements have been included as a result of the heightened public interest expectations from stakeholders. However, the requirements are inconsistent with the way many external experts and their employing organizations operate, which will result in their inability to operationalize and comply with the standard.

It is unlikely that the external expert's firm has a way to track and report the specific independence attributes, especially across a large organization. Therefore, external experts and their organizations may receive a request from PAs for additional information about the specific independence attributes and choose not to accept the engagement. These firms may be reluctant to implement costly systems to monitor the relationships and interests requested by PAs on a real time and ongoing basis, thus limiting the pool of external experts willing to work with PAs.

The proposed standards would result in external experts and their organizations needing to track and report independence attributes with respect to the period covered by the audit or assurance report and the engagement period. This would likely be inoperable for most external experts and further drive up the cost of the engagement, which will then be passed on to the client. The additional costs will disproportionately impact small and medium-sized PA firms because they will likely rely the most heavily on the work of external experts. Large PA firms often have extensive internal expertise and may not need to engage an external expert as frequently.

External experts' employing organizations might also be prohibited or unwilling to provide information about the specific independence attributes due to court orders, confidentiality

agreements, professional standards, or legal privileges:

- The external expert might have signed a nondisclosure agreement and be legally prohibited from communicating information about other services the employing organization is providing to the client.
- The external expert may be an attorney, who cannot divulge information about the client due to attorney-client or work product privilege.
- If an external expert's employing organization is owned by a private equity (PE) firm, the external expert may not be able to acquire the nature and extent of interests and relationships with the entity, as required by paragraph R390.8 (m). Even if the external expert could gather the information, that PE firm might not be willing to disclose it to the PA.

Additionally, without implementing a system to monitor information about the specific independence attributes, external experts may find it challenging to obtain that information with any degree of certainty. This will *limit the benefit of the proposed standards* and lead to inconsistent practice. It may not be possible to obtain with any reliability:

- Information about the specific independence attributes from an external expert's team, depending on how the firm interprets "all members of the external expert's team," especially if the external expert is part of an international consulting firm with thousands of employees
- Information about any position as a director or officer of the entity held or previously held by management of the external expert's employing organization, especially in a large international consulting firm
- Information about any previous public statements that could be attributed to the external expert or the employing organization and interpreted as advocating for the entity

PEEC has concerns with the additional provisions in paragraph R390.8 based on outreach to consultants who may serve as external experts. The consultants shared similar observations regarding the ability to obtain the following information from a whole team or organization, and also commented on the following:

- **R390.8(b):** With respect to loans and guarantees, without an understanding of what would be considered immaterial, we believe the external expert or firm will be challenged to enact an appropriate inquiry analysis.
- **R390.8(e):** It will be difficult to obtain this information on a firm wide basis. Consulting firms may not be willing to disclose information about the size of clients or how material the clients are to them, resulting in experts not accepting these



engagements with audit firms. Additionally, a “close business relationship” is not defined in the glossary.

- **R390.8(f), (g), and (j):** The external expert or their employing organization may be prohibited from disclosing this information due to court orders, confidentiality agreements, professional standards, legal privileges, etc.
  - (f) How far back would the external expert have to look? It states, “any previous engagements” but doesn’t include a reasonable time period.
  - (g) “How long...associated with the entity” – this is overly burdensome for the external expert and firm as it similarly does not include a reasonable time period and again fails to recognize issues with confidentiality (as mentioned above).
- **R390.8(h)(iii):** This is impractical because it may not be possible to know all of management’s prior employment relationships in a large firm. Even if a firm were to send out an organization-wide email, there is no assurance that all employees will respond.
- **R390.8(k):** “Benefits” is not defined in the glossary and therefore will require interpretation.
- **R390.8(m):** Many consulting firms don’t have “controlling” owners, as they are frequently owned by many partners with small percentage ownership and controlling is also not defined. Further, private equity firms have been taking financial positions in both CPA and consulting firms. Even if a PE firm meets the “controlling” threshold, it is unreasonable to expect the consulting firm to request that the investor PE partner respond across the PE firm’s holdings (it is unlikely that PE firms will be willing to share this information).
- **R390.9:** It is not clear who qualifies as “all members of the external expert’s team” and whether individuals in administrative roles and staff roles are included, or the level below the engagement partner. It seems difficult for the external expert’s organization to comply with this.
- **R390.10:** It is not practical to monitor these changes in facts or circumstances across a large firm. This equates to an onerous, open-ended conflict check procedure imposed upon the external expert’s firm and it is not clear how it would be effectuated, updated, and monitored. Though the exposure draft appears to reflect an understanding that there may not be these levels of monitoring systems in place at the external expert’s firm, IESBA is effectively imposing that they be created if the external expert’s firm performs these services. This does not appear reasonable nor attainable and may affect the availability of critical external experts for use by PAs.

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? See Section (VI)(A).

**Overall response:** Yes, with comments below.

**Detailed comments:** Generally, PEEC supports PAs applying the conceptual framework when using the work of an external expert. However, some of the examples of factors that are relevant in evaluating the level of threats included in paragraph 390.15 A1 are performance considerations, such as the following:

- The nature of the professional service for which the external expert's work is intended to be used
- The professional accountant's oversight relating to the use of the external expert and the external expert's work
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation

It would be helpful to have additional examples or more clarity on the examples of safeguards provided in paragraph 390.16 A2.

We appreciate your consideration of these comments and welcome the opportunity to discuss these issues further. If you have any questions, please contact Toni Lee-Andrews, Director – AICPA Professional Ethics Division at [Toni.LeeAndrews@aicpa-cima.com](mailto:Toni.LeeAndrews@aicpa-cima.com) or Ellen Gorla, Associate Director – AICPA Global Professional Ethics at [Ellen.Gorla@aicpa-cima.com](mailto:Ellen.Gorla@aicpa-cima.com).

Sincerely,



Anna P. Dourdourekas, Chair  
Professional Ethics Executive Committee

cc: Toni Lee-Andrews, CPA, PFS, CGMA, Director – Professional Ethics