

30 April 2024

Mr. Ken Siong  
IESBA Program and Senior Director  
International Ethics Standards Board for Accountants

By email: [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org)

Dear Mr. Siong

### Using the Work of an External Expert

CPA Australia represents the diverse interests of more than 173,000 members, working in over 100 jurisdictions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

The reporting and assurance of sustainability related information is undoubtedly of tremendous global importance and interest. While this has prompted the International Ethics Standards Board for Accountants (IESBA) to develop revised standards for professional accountants (and new standards for sustainability assurance practitioners) with respect to the use of external experts, the impact and implications for professional accountants are more far reaching than simply sustainability reporting and assurance.

CPA Australia makes the following observations and recommendations about the *Exposure Draft: Using the Work of an External Expert* (ED). Our responses to the requests for specific and general comments are included in Appendix 1 to this letter. Appendix 2 includes suggested potential wording revisions and additions.

- The proposed revisions contained in the ED have added more than ten pages to Parts 2 and 3, adding to what is an already very lengthy Code of Ethics for Professional Accountants (the Code). Many of our members often advise us that the Code is challenging and impractical to understand and use, due to its length and detail. Moreover, for the same reasons, it is becoming increasingly difficult for those organisations (many of them Professional Accountancy Organisations (PAOs)) that are responsible for monitoring and enforcing the Code, to efficiently fulfil their monitoring and enforcement obligations. CPA Australia recommends that the IESBA looks at alternatives to merely adding pages to the Code when a new topic or area of interest arises, especially when the proposed revisions are essentially clarifying and providing guidance on matters that are ostensibly already covered by the Code, as is the case with this ED.
- A consequence of the Code being so lengthy (and becoming increasingly challenging to understand and use) is that professionals, other than accountancy professionals, will not be able to readily understand, interpret and implement the provisions and requirements of the proposed revisions to the use of an expert provisions and the proposed new Part 5. Even professional accountants, who have applied the Code for many years and have experienced its exponential growth, are finding it increasingly difficult to understand and apply. Arguably, it is unlikely that these other professionals (i.e., non professional accountants) at whom Part 5 is targeted will readily embrace and adopt the Part 5 provisions, unless it is mandated for use in their jurisdiction. As such, it is questionable that the IESBA will successfully achieve its objective of producing a profession-agnostic standard that is used universally by all professionals. However, if the standards are being developed on the basis that governments and regulators will mandate the use of Part 5 in their jurisdictions, it is incumbent on the IESBA, regulators and governments to develop and publish extensive guidance materials and information, written in more simplified language, for it to be successfully adopted and implemented, both by professional accountants and those from outside the accountancy profession.
- In the Explanatory Memorandum of the ED, we note that the IESBA has used the term “heightened expectations” (of stakeholders) on four occasions. Once “in the context of an audit or other assurance engagement”, once “concerning the external expert and any supporting team” and twice “regarding the objectivity of an external expert whose work is used in

*an audit or other assurance engagement*". We note that this term was also used in explaining the reasons for having different independence requirements for audits of public interest entities, vis-a-vis those entities which are not public interest entities. The regular use of this term can be confusing for readers and others using the standards, in terms of being able to clearly distinguish between the relative importance of different actions, and the reasons for these differences.

- Paragraph 15 of the Explanatory Memorandum states that internal experts would not be objective. It is not clear that this should be stated so definitively. One can envisage situations, with appropriate safeguards in place, where internal experts can appropriately exercise objectivity in their decision making and work. Moreover, the IESBA's assertion that someone working within an organisation (i.e., being "internal") cannot be objective in the work they undertake would effectively render all professional accountants in business in breach of the Code.
- Additionally, we note that in the Explanatory Memorandum (paragraph 18) reference is made to fields other than accounting, with the examples cited being valuation and climate change. These two examples are activities where aspects of the work being undertaken may clearly be defined as accounting. It may be best for the IESBA to consider expressing this discussion along the lines that the engagement of experts is across a very broad range of topics, rather than saying that it is in fields other than accounting.
- The IESBA notes that it will consider whether to develop appropriate transitional provisions in recognition that there may be limitations on the availability of experts in certain jurisdictions. CPA Australia supports such consideration, and strongly recommends that the IESBA refrains from making further revisions to its proposed relevant standards, and sections of the Code that are affected by these EDs, during the transitional period.
- The description of the IESBA's reasoning in response to stakeholder feedback about the scalability of the standard, relating to the principle of objectivity, is unclear. Paragraph 84 of the Explanatory Memorandum implies that the need to be independent/independence requirements do not concern ethical behaviour. That is, while objectivity concerns ethical behaviour, independence does not. That is an unusual assertion for the IESBA to make. Additionally, the paragraph that follows (paragraph 85) states that "*scalability is already built into the objectivity approach set out in the proposed new Section 390.*" It is not clear how this is the case, especially as proposed paragraph R390.8 is written as a requirement that obliges the professional accountant to seek "any" information across a number of factors.

If you have any questions, or require clarification, about our comments in this letter, please contact me on +61 401 716 035 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely

Ram Subramanian  
Interim Head of Policy and Advocacy

## Request for Specific Comments

### Glossary

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

While recognising the discussion and explanations given by the IESBA for why it has chosen to define the terms “expert” and “expertise” in the way that it has (refer Section III of the Explanatory Memorandum), it is not clear that the importance of experience has been appropriately addressed in the definitions, or in the proposed standards. Moreover, with the International Auditing and Assurance Standards Board (IAASB) including the word “experience” in its definition of expertise, it means that there will be different definitions in the two different sets of standards.

The following observations are made:

- After referring to dictionary definitions that describe an expert as having knowledge and skills, it is unclear why the IESBA defined expertise using those two terms, and then defined expert by reference to its definition of expertise. An alternative would have been to define expert by direct reference to the words “knowledge and skills”. Logic suggests that less confusion will be created, and there will be less chance of misunderstanding, if the definition of expert was to refer directly to knowledge and skills. By referring to the concept of expertise, some readers may make their own assumptions about what expertise entails (especially if they are audit and/or assurance practitioners familiar with the international auditing and assurance standards) without reference to the IESBA’s definition of that term.
- It is unclear why in its definition of expert, the IESBA has chosen to anchor/refer to a professional accountant’s, or sustainability assurance practitioner’s, “competence”. The Explanatory Memorandum (refer to paragraph 40) notes that an expert might need to be used when “the professional accountant or sustainability assurance practitioner lacks sufficient expertise to perform a professional activity or service”. Based on this discussion in the Explanatory Memorandum, it seems that the IESBA is equating a lack of expertise with being outside an area of competence. If that is not the intention of the IESBA, consideration might be given to revising the wording of the proposed definition of expert to something along the lines of: “*An individual possessing expertise in a particular field where the professional accountant or sustainability assurance practitioner has a lack of expertise*”. (With reference to the first dot point above, expertise may be substituted with the words “knowledge and skills” in the suggested revised definition).
- In sections 290.6, 390.6 and 5390.6, the professional accountant or sustainability assurance practitioner is seeking to evaluate the competence, capabilities and objectivity of the external expert. Arguably, given that there is no reference to evaluating the expertise (knowledge and skills) of the expert in these sections, it appears to assume that by virtue of being considered an expert, the knowledge and skills are a given and hence do not need to be specifically evaluated. If that assumption is correct, the IESBA may seek to make that point more clearly in the standard.

### *Evaluation of Competence, Capabilities and Objectivity (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? See Section V.

As noted in the third dot point of the response to Question 1, the approach regarding the evaluation of an external expert’s expertise (knowledge and skills) seems to be lacking. Arguably, the factors enumerated for evaluating the competence of the external expert may be the same as an assessment of the knowledge and skills of the expert. That is, in these sections describing the evaluation of an external expert, competence may be used to mean the same thing as knowledge and skills. The IESBA should clarify if this is its intention and should consider making specific reference to knowledge and skills (or expertise) in those relevant sections.

**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.**

CPA Australia supports the inclusion of this prohibition. However, as noted by the IESBA, transitional arrangements may need to be considered for jurisdictions where there are limitations on the availability of experts, which in turn may impact the practicality of imposing a total prohibition during the transitional period.

***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? See Section (V)(A).**

The application of the additional provisions relating to evaluating an external expert's objectivity (and the objectivity of the external expert's team) when their work is used in audit or other assurance engagements will be difficult to implement.

Feedback from our members is that the proposed requirements will be too onerous for professional accountants as they are unlikely to be able to meet these requirements without impinging upon an expert's right to privacy. Proposed paragraphs R390.8 – 11 and R5390.8 – 11 are especially challenging and assumes that a professional accountant or sustainability assurance practitioner has the power and ability to demand information from third parties. Moreover, the use of the word "any" at the start of many of the information points makes these paragraphs very challenging. As noted in our cover letter, it is arguable that, as written, these paragraphs are not scalable.

While it is clear that the proposed standard envisages that an external expert would not be engaged where they did not provide the required detailed information to the professional accountant or sustainability assurance practitioner, difficulties arise when experts are not part of the accountancy profession and hence are unused to the stringent and strict requirements imposed on the profession. It is likely that many experts would not understand the requirements and would not have the very costly and complex systems in place that professional accountancy firms are required to maintain, to monitor and report the information required. Indeed, the problems created by these proposed standards are only exacerbated by regulators in some jurisdictions opposing the benefits of multidisciplinary firms, which arguably provide a ready-made solution to the issues that the proposed wording is trying to address.

As noted earlier, the use of the words "heightened expectations" is not helpful in paragraphs 390.7 A1 and 5390.7 A1. While the IESBA argues that it is not planning to scale (or bifurcate) levels of objectivity, it seems that paragraphs 390.8 – 11 and 5390.8 – 11 are doing exactly that. That is, being objective as an external expert where the work being done is used in an audit and assurance engagement, means something different (i.e., has additional restrictions and more detailed information that needs to be provided) from being an expert working on a non-audit/non-assurance engagement.

If the IESBA chooses to retain these paragraphs, extensive guidance materials will be required for those who are not professional accountants and are impacted by these paragraphs.

***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? See Section (VI)(A).**

CPA Australia supports these guidance provisions. It recommends no further considerations for inclusion.

## Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- **Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.**

SMPs will find these proposed revisions extremely challenging to adopt and implement. Many smaller practitioners already find the current Code to be difficult to implement. As the Code will run into several hundred pages after these revisions are made, the time has come (maybe already passed) for the IESBA to seriously consider having an abbreviated Code of Ethics for use by SMEs and SMPs – to complement the work done by other standard setters with respect to having, for example, developed IFRS for SMEs and a standard on audits of less complex entities.

- **Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.**

The proposed revisions add to the enforcement challenges for professional accountancy organisations undertaking quality reviews of, and professional conduct activities with respect to, its members. Of particular concern is the inherent assumption in some of the proposed revisions that the professional accountants can demand information from third parties and are expected to assume responsibility for the actions of others.

- **Sustainability Assurance Practitioners Other than Professional Accountants – The IESBA invites comments on the clarity, understandability and usability of the proposals from SAPs outside of the accountancy profession who perform sustainability assurance engagements addressed in the proposed Part 5 of the Code.**

Not applicable.

- **Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.**

No comment

- **Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposal.**

No comment.

**Potential Suggested Wording Revisions and Additions**

- Proposed Paragraph 290.4 A2, 390.4 A2, and 5390.4 A2

These paragraphs may be more readily understood and interpreted if they were to be worded as follows:

*An action that might be a safeguard to address such a threat to compliance with the fundamental principles for the professional activity is to use the work of an external expert who has the competence, capabilities and objectivity to deliver the work needed for such service.*

- Proposed Paragraph 290.10 A1, Second Dot Point

This dot point might be revised as follows, given that it relates to a professional accountant in business, who may be an employee rather than having an “engagement” arrangement with their employer:

*The impact of the external expert’s work on the professional accountant’s work and activities.*

- Proposed Paragraph R290.13, R390.18 and R5390.18 guidance or example(s).

The understanding and interpretation of these proposed paragraphs would benefit from further clarification, guidance or an example(s).