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Mr. Ken Siong
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Exposure Draft: Using the Work of an External Expert

Dear Mr. Siong,

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Exposure Draft, *Using the Work of an External Expert* ("ED"), issued by the International Ethics Standards Board for Accountants ("IESBA" or "Board").

We are overall supportive of the IESBA's efforts to establish an ethical framework to guide professional accountants ("PA") and sustainability assurance practitioners ("SAP") in evaluating whether an external expert has the necessary competence, capabilities and objectivity ("CCO") for the PA's and SAP's intended purpose. We agree with the Board that with the increasing use of external experts and the relevance of their contribution to the services provided by PAs and SAPs, in particular in the area of sustainability, a framework is necessary to keep the Code fit for purpose. We also agree that an increased rigor in evaluating the objectivity of an external expert used for audit, other assurance and sustainability assurance engagements is responsive to the heightened public interest expectations. However, we believe that in order to meet the objective the IESBA seeks, further coordination with the IAASB is essential in order to achieve holistic and interoperable standards. While we understand there has been close coordination between IESBA and IAASB, ideally, the IESBA and IAASB should work jointly on their enhancements to their standards rather than separately. Without this level of coordination, we see a risk that the results of the evaluation performed under the IESBA's proposals of an external expert's CCO will be misaligned with the evaluation requirements of International Standards on Auditing 620, "Using the Work of an Auditor's Expert," ("ISA 620"), as well as the proposed evaluation requirements included in the IAASB's Exposure Draft of proposed International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements and Proposed Conforming and Consequential Amendments to Other IAASB Standards* ("ED ISSA 5000"). As more fully explained in our response to question three below, because of the overlap of the IESBA's proposals with the requirements of ISA 620 and the proposals of ED ISSA 5000, and the potential significant consequences for the PA's and SAP's ability to obtain sufficient appropriate evidence, we strongly urge that the IESBA and IAASB be jointly involved in deliberating the potential consequences of the results of the CCO evaluation being misaligned between the standards. Therefore, we suggest that the IESBA first take into consideration the IAASB's responses to comments to, and deliberation on, its proposals in ED ISSA 5000 prior to the finalization of the IESBA's proposals, since the evaluation of an external expert's objectivity is a matter that impacts the availability of evidence used in audit, other assurance and sustainability assurance engagements. Finally, we believe the IESBA's and IAASB's proposals should be issued concurrently with a similar effective date.

Five specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

Glossary

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

We support the proposed definitions of Expert and Expertise as set out in the glossary. However, we believe these definitions need to be deliberated by the IAASB as part of their project to consider narrow scope amendments to IAASB standards with the objective of ensuring consistency and interoperability with regard to the use of these terms.

With regard to the definition of External Expert, we note that due to the use of the possessive case of "professional accountant's" the proposed definition omits the case of the professional accountant in public practice ("PAPP"), as an individual, engaging the external expert. While the definition of a PAPP, as used in Parts 3, 4A and 4B of the Code, includes both the PAPP and the PAPP's firm, the use of the possessive case suggests that an external expert would only be engaged by the PAPP's firm, but not the PAPP as an individual. To make it abundantly clear that the PAPP, as an individual, could be engaging the external expert, we suggest the following edits to the proposed revisions to definition of External Expert:

An expert engaged by a professional accountant, the professional accountant's employing organization or firm, or by a sustainability assurance practitioner.

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?

We are generally supportive of the IESBA's approach. We have the following comments for the IESBA's consideration.

(A) We support a requirement in the Code to evaluate whether the external expert has the necessary CCO for the PA's / SAP's purpose for all professional services. What is considered by the PA / SAP to be "necessary" will depend on several factors, including the nature of the service being provided, the type of expertise needed, the role of the external expert in the service provided by the PA / SAP, the availability of experts, and the significance of the external experts work in the context of the PA's / SAP's service, among other considerations. Therefore, before the PA /SAP can evaluate whether the external expert has the necessary CCO, the PA / SAP will first need to determine what level of CCO is necessary, based on the unique circumstances. We believe it would be helpful to include the concept of first determining what level of CCO is necessary in proposed paragraph R390.6 / R5390.6, and with regard to audit, other assurance and sustainability assurance engagements this consideration of the necessary level of CCO should be coordinated with the IAASB so that appropriate revisions to relevant IAASB standards (e.g., ISA 620, ISREs, ISAEs, and ED ISSA 5000) can be considered concurrently with the IESBA's proposals.

We also believe it would be helpful to make the following edit in proposed paragraph R390.12 (b) / R5390.12 (b) to make it clear that the evaluation is based on the level of CCO the PA /SAP determines to be necessary for the PA's / SAP's purpose:

R390.12 (b) / R5390.12 (b)

The [accountant / practitioner] determines that the external expert ~~is~~ does not ~~have the necessary~~ competence, ~~capabilities~~ le or ~~objectivity~~ for the ~~accountant's / practitioner's~~ purpose.

- (B) Because a PA will engage an external expert when the PA does not possess the necessary competencies and capabilities, the need to perform the evaluation of competence and capability of the external expert is self-evident and we believe the factors included in proposed paragraphs 390.6 A2 – A3 / 5390.6 A2 – A3 are relevant to this evaluation for all professional services. However, there are aspects of the factors in proposed paragraph 390.6 A4 / 5390.6 A4 for evaluating the objectivity of an external expert, including the application material in proposed paragraph 390.6 A5 / 5390.6 A5, we believe should be further considered by the Board, especially when the external expert is engaged in the context of providing non-assurance services (“NAS”). In its description of objectivity in R112.1, the Code focuses on three elements: bias, conflict of interest and undue influence/reliance. We believe that these three elements are relevant in the evaluation of objectivity with regard to an external expert engaged by the PA / SAP in providing all professional services. However, two of the factors listed in proposed paragraph 390.6 A4 / 5390.6 A4 go beyond these three elements of objectivity as follows:

Whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
External experts can come from diverse fields. While some of these fields will be subject to a standard-setting body, and such standards might cover ethical practices in the performance of their professional activities, such standards would generally not include objectivity requirements similar to those of the IESBA Code. The consideration of whether the external expert is subject to ethics standards would only be relevant for the PA's / SAP's consideration if such ethics standards addressed the relevant objectivity requirements.

Therefore, we believe this factor should be removed from proposed paragraph 390.6 A4 / 5390.6 A4, as its inclusion as a factor to consider might inadvertently lead a PA / SAP only to consider whether the expert is subject to ethical standards rather than whether the expert has the necessary objectivity.

Whether the external expert will evaluate or rely on any previous judgments made or activities performed by the external expert or their employing organization in undertaking the work.

As discussed in our response under (A) above, a PA / SAP needs to first determine what the necessary level of objectivity is, which will depend on the service for which the external expert is engaged and other factors. The fourth bullet point of proposed paragraph 390.6 A4 / 5390.6 A4 does not give recognition to this, nor does it recognize that the circumstances of the external expert's previous judgements or activities are relevant to the consideration of objectivity. For example, in the context of NAS, it can often be the case that the NAS provided by the PA / SAP involves elements of, or extensions to, services that an external expert previously provided to the same client. In these cases, having the PA / SAP engage the external expert that was previously involved might be desired, or even requested, by

the client due to the external expert's knowledge of and experience with the client, which can create efficiencies and facilitate a more rapid deployment of the PA's / SAP's NAS. We do not believe that this type of self-review threat evaluation of objectivity, and the application material in proposed paragraph 390.6 A5 / 5390.6 A5, should apply when evaluating the objectivity of an external expert engaged by the PA / SAP in the context of NAS, as long as there is no undue reliance by the external expert on the previous work.

We believe, however, this self-review threat evaluation of objectivity would be relevant when evaluating the external expert's objectivity in the context of audit, other assurance and sustainability assurance engagements, and would therefore suggest that this consideration be moved to the Audit or Assurance Engagements subsection.

Further, as currently proposed, it is not clear in the fourth bullet point of proposed paragraph 390.6 A4 / 5390.6 A4 whether the threat being evaluated relates to the external expert's evaluation of or reliance on previous judgements or activities in relation to (i) only the entity for which the external expert is performing the work; (ii) to all entities for which the external expert has performed similar work; or (iii) in the case of a recurring service to the same entity, to multiple periods when the external expert relies or evaluates the previous period's judgement or activities. For example, if the external expert provided the same or similar expertise to different entities based on the expert's proprietary data or benchmarks, standard calculation methodology, or proprietary solutions set, and therefore is relying on previous judgements made or activities performed at other entities, we do not believe this would prevent the external expert from being objective with regard to the entity for which the external expert performs the work. While the examples provided in proposed paragraph 390.6 A5 specifically reference the entity for which the external expert is performing work, we believe it should be made clear in 390.6 A4 that the self-review threat evaluation of objectivity relates only to previous judgements made or activities performed by the external expert for the entity for which the external expert is performing the work.

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?

We believe the prohibition in proposed paragraph R390.12 / R5390.12 should be determined based on whether the PA / SAP concludes that the external expert does not have the necessary competence, capability and objectivity for the PA's / SAP's purpose, or is unable to obtain the information needed to perform the evaluation, in which case the Code should prohibit the PA / SAP from using the external expert's work. However, with regard to the evaluation of objectivity, we believe this is a matter that requires close coordination with IAASB since the evaluation of an external expert's objectivity is a matter that impacts the availability of evidence used in audit, other assurance and sustainability assurance engagements. The IESBA should consider discussing with the IAASB whether there is a possibility of alternative procedures or other actions that could be taken by the PA / SAP, such as adjusting the scope or purpose of the work, to allow them to conclude that the work of the external expert could be used (i.e., to allow the PA / SAP to conclude that the necessary objectivity for the PA's / SAP's purpose is achieved).

Please also see our responses to question two above with regard to first determining the necessary CCO for the PA's / SAP's purpose and the factors used to evaluate the objectivity of an external

expert in the context of NAS. We believe it needs to be clear that the evaluation of and conclusion on the external expert's objectivity is in relation to the necessary degree of objectivity needed for the PA's / SAP's purpose for all professional services.

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?

We understand that the additional matters relating to evaluating an external expert's objectivity set forth in proposed paragraph R390.8 / R5390.8 are not matters that individually would prohibit a PA / SAP from engaging an external expert, but rather are matters that the PA / SAP would take into consideration in evaluating the objectivity of the external expert necessary for the PA's / SAP's purpose. As such, we agree that the matters set forth in proposed paragraphs R390.8 / R5390.8 are relevant to the evaluation of the external expert's objectivity in the context of audit, other assurance and sustainability assurance engagements. However, we have concerns about the practicality of the PA / SAP requesting the external expert to provide the level of detailed information included in proposed paragraph R390.8 / R5390.8, and the willingness of external experts to provide such information. In particular, external experts and their employing organizations likely will not have the necessary policies, procedures and tools needed to capture, monitor, and report this level of detailed information. We believe a more practical approach to address the relevant threats would be for the PA / SAP to obtain a confirmation from the external expert whether to the best of the external expert's knowledge, they are aware of any of the matters listed in R390.8 / R5390.8 that would bear on their objectivity, or disclose such matters if they exist. This confirmation, coupled with inquiry of the client as noted in proposed paragraph 390.11 A2, should provide the PA / SAP with sufficient basis to evaluate the objectivity of the external expert. This evaluation could also include whether the PA / SAP knows, or has reason to believe, that any such matters pertaining to the external expert or their employing organization exist.

We also have the following additional comments for the Board's consideration:

R390.8 (g) / R5390.8 (g)

It is not readily clear what is meant by "have been associated with the entity," and whether that "association" is in regard to the relationships described in sub-points (a) – (f) of proposed paragraph R390.8 / R5390.8, or something else. We suggest the meaning of "associated with" be further clarified. Alternatively, given that proposed paragraph R390.8 / R5390.8 makes it clear that the period for which the information is requested is the period covered by the audit or assurance report and the engagement period, the Board could consider removing sub-point (g) altogether.

R390.8 (f) and (h) / R5390.8 (f) and (h)

Since proposed paragraph R390.8 / R5390.8 makes it clear that the period for which the information is requested is the period covered by the audit or assurance report and the engagement period, it does not appear necessary to use "previous or current" or "previously held" in describing the relationships covered under sub-points (f) and (h). Therefore, we propose the following edits:

- (f) Any ~~previous or current professional service~~ engagements between the external expert or their employing organization and the entity;
- (h) Any position ~~held by the external expert, their immediate family or by management of the external expert's employing organization~~ as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information, or the records underlying such information.:
- ~~(i) Held by the external expert or their immediate family;~~
~~(ii) Held or previously held by the external expert; or~~
~~(iii) Held or previously held by management of the external expert's employing organization.~~

R390.8 (i) / R5390.8 (i)

We believe that sub-point (i) is too broadly formulated and as such creates a risk of being misunderstood, specifically with regard to public statements made by the external expert or their employing organization. We therefore propose the following edit, which we believe more specifically addresses the relevant advocacy threat to the external expert's objectivity:

- (i) Any ~~arrangement that requires or compels previous public statements by~~ the external expert or their employing organization ~~which to~~ advocated for the entity's ~~interests, goals, objectives or positions.~~

R390.8 (k) / R5390.8 (k)

We believe that sub-point (k) is too broadly formulated and as such creates a risk of being misunderstood, specifically with regard to the type and nature of "benefits received." We recommend that the Board further consider, and more clearly articulate, the type and nature of benefits that would create a threat to the objectivity of the external expert, their immediate family or the external expert's employing organization.

Proposed paragraph R390.9 / R5390.5 requires the PA / SAP to also obtain the information set out in proposed paragraph R390.8 / R5390.8 for the external expert's team. We do not believe it is necessary to obtain this information from the external expert's team. While the external expert's team might include other experts, the external expert that is engaged by the PA / SAP will lead and supervise the team, determine the necessary inputs and outputs that comprise the external expert's expertise, and be the one providing the expertise to be used by the PA / SAP. Therefore, the threats to objectivity rest primarily with the external expert and not the external expert's team. Further, depending on the nature and complexity of the work, an external expert could have a large team of individuals and various levels of experience, performing tasks that range from menial (e.g., performing research) to complex (e.g., performing complex calculations). In cases of more junior team member performing menial tasks, there is little risk to the external expert's objectivity when the junior team member has any of the relationships or situations described in proposed paragraph R390.8 / R5390.8. This could also potentially require significant administrative effort and time in obtaining this information, or require the external expert or their employing organization to institute a process for obtaining, maintaining and reporting such information, such that the effort will outweigh any benefit obtained. We therefore recommend that the requirement be applied only to the external expert (or their employing organization, where applicable) where the primary threat to objectivity exists.



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?

We generally support the provisions that guide PAs / SAPs in applying the conceptual framework when using the work of an external expert.

In paragraph 71 of the Explanatory Memorandum, the Board notes that it will consider whether to develop appropriate transitional provisions. We agree that transitional provisions should be considered by the Board. While we generally agree with the Board's view that market capacity will gradually adjust to meet the demand, we do not believe this will be the case in all fields for which experts are needed.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tonemaren.sakshaug1@qa.ey.com) or John Neary (john.neary1@ey.com).

Yours sincerely,

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