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Re.: Exposure draft “Using the Work of an External Expert”

Dear Ken,

The IDW is pleased to have the opportunity to respond to the IESBA’s exposure draft “Using the Work of an External Expert”.

Before responding to the questions posed in the Explanatory Memorandum (hereinafter referred to as the EM) in the appendix to this letter, we would like to draw your attention to our key concerns that are not all specifically addressed by specific questions:

Key Concerns

The need for closer coordination with the IAASB

According to the EM, IESBA is progressing this project in tandem with its own Sustainability Project but intends to finalize this project ahead of the IAASB considering where specific revisions to ISAs and ISSA 5000 may be appropriate.

Our review of the ED indicates that further coordination is needed to ensure that IESBA does not overstep its remit vs. the IAASB on work effort requirements in relation to using the work of experts. Further coordination also applies to the definitions, which will also impact the work of the IAASB. Unless further coordination is undertaken at an earlier stage on fundamental issues on these types of projects that affect both boards, either the expectation that the IAASB

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will adopt changes resulting from change to the IESBA Code will undermine the independence of the IAASB, or the IAASB will need to “go its own way” independent of what IESBA does, which would lead to inconsistencies between the pronouncements of the two boards and is not in the public interest.

Limitation of the scope of ED to external experts

In the IDW's view, for the reasons outlined in para. 7 of the EM, this project should address the use of all experts (i.e., irrespective of whether they are employed or engaged by the reporting organization or the professional services firm).

We do not support IESBA's proposal in para. 17 of the EM that the scope of the provisions' focus be solely on “external experts”. We had made similar comments to the IAASB in relation to ED ISSA 5000

(<https://www.idw.de/IDW/Medien/IDW-Schreiben/2023/IDW-ISSA-5000-Schreiben-231201.pdf>) and understand that the IAASB's current thinking is now to address all experts.

Limiting the scope as proposed is misaligned with the approach taken by the IAASB (in its existing standards and in the most recent working draft of ISSA 5000 – post March 2024), which does not distinguish between auditors'/practitioners' experts that are internal and external because, except for matters relating to independence vs. objectivity, at a principles based level the requirements for using both need to be the same, even if how those requirements are fulfilled may be different. The requirements at a principles-based level need to be the same because the professional accountant/ auditor/ practitioner using the expert has a responsibility to determine that the expert in question has the appropriate competence and capabilities needed to fulfill the specific purposes to which the experts work is being used. In the case of an internal expert, the accountant/ auditor/ practitioner may be able to place some – but not sole – reliance upon a system of quality management within an enterprise or firm. As recognised by ISA 620. A13, an auditor may be able to depend on the firm's system of quality management and related policies and procedures in respect of an internal expert's competence and capabilities through recruitment and training programs as well as that expert's objectivity. However, since the Code is standard neutral and does not require PAPPs comply with ISQM 1 and other enterprises (i.e., preparers and “other” SAPs) may not have such quality management in place, it is incumbent upon the Code to cover internal as well as external experts.

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For example, paragraph 9 of ISA 620 requires the auditor to evaluate whether the auditor's expert has the necessary competence and capabilities for the auditor's purposes, but the application material in paragraphs A11 to A13 explicitly recognizes the role of the firm's system of quality management and paragraph A13 recognizes that auditors may rely upon firm quality management for certain aspects of this evaluation.

The need for a sliding scale approach and clarification of how the Code's threats and safeguards approach might apply

We note that ISA 620.08 introduces a sliding scale approach to an auditor's use of the work of an expert in recognising that the nature, timing and extent of the auditor's procedures will vary depending on the various factors listed in that paragraph, including a consideration of the significance of that expert's work in the context of the audit. As we explain in responding to q.3, we believe it necessary also for IESBA to clarify the factors a PA ought to consider in evaluating whether in the individual circumstances the (level of) the expert's competence, capabilities, and objectivity meet that necessary for the PA's purposes – i.e., this should also include a sliding scale approach.

We are also concerned that the proposed changes to the IESBA Code fail to address how a threats and safeguards approach might apply. The proposals appear to disregard the fact that a PA who intends to use work undertaken by an expert cannot simply use the work of that expert "blindly" (i.e., the expert's competence, capabilities, and objectivity alone will not determine the suitability of use of the expert's work). For example, ISA 620.10 has an inbuilt safeguard, since it requires an auditor to obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to determine the nature, scope and objectives of that expert's work for the auditor's purposes and evaluate the adequacy of that work for the auditor's purposes – accompanied by a requirement to perform this evaluation in ISA 620.12 et seq. We suggest also IESBA specify how the Code's threats and safeguards approach might apply and also acknowledge within the Code that a PA is required to obtain an understanding of the field of expertise and to evaluate the expert's work.

Requirements incumbent on experts need to be practicable and not serve to reduce their availability

As IESBA is aware, the accounting profession is increasingly impacted by new fields of expertise being relevant to financial and other forms of corporate

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reporting and related assurance beyond the traditional skill sets of professional accountants. Thus, the need to involve experts in corporate reporting and related audit or assurance engagements continues to grow.

Clearly, to ensure high quality preparation and related audit or assurance of corporate reporting, it is in the public interest that PAs can, where necessary, draw on experts who possess the necessary competence and capabilities (and, where needed, objectivity).

We are concerned that requiring PAs to demand that experts provide the comprehensive information proposed will, in practice, limit the availability of experts. In this context, we strongly believe that the complexities associated with information stemming from within a reporting entity's value chain also need more consideration.

In responding to q. 2, we outline our concerns as well as some possible changes that might, in part, ease this situation.

Encroaching Upon the Remit of the IAASB

Although we recognize that Part 3 also covers engagements not currently covered by IAASB engagement standards, there seems to be considerable material in relating to the consideration of the competence, capabilities, and objectivity of experts being proposed in the ED for Part 3 and Section 5390 that is already being covered by IAASB pronouncements.

With respect to the remits of the respective boards, IESBA covers matters related to the five fundamental principles of ethics and to independence (which represents a means of supporting the fundamental principle of objectivity). In contrast, the education standards originally issued by the IAESB cover the basic competencies and capabilities expected of all professional accountants generally and of audit engagement partners generally, whereas IESBA covers competence and capabilities of professional accountants in their particular roles or for particular engagements. In comparison the IAASB focuses upon the due care aspect of practitioners when they perform audits, and other assurance and related services engagements (including the needed quality management to fulfill such due care) – that is, the IAASB standards focus on what practitioners need to do to appropriately exercise due care when performing such engagements (and on the quality management that firms need to establish to enable practitioners to exercise such due care). To this effect, the IAASB sets “work effort” requirements for practitioners to appropriately exercise due care, such as the work effort practitioners need to undertake to decide whether

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experts whose work practitioners intend to use have the competence, capabilities and objectivity needed for the practitioners' purposes.

The question is whether it is within the remit of IESBA to set work effort requirements (i.e. to set forth requirements for exercising due care) generally for professional accountants (and non-accountant practitioners) when these seek to use the work of experts, or whether IESBA's remit stops at determining what the requirements for competence, capabilities and objectivity are. In any case, we do not believe that IESBA currently has the standard setting infrastructure in place (in particular, CUSP conventions with, among other matters, conventions on the use of verbs to signify work effort and documentation requirements) to systematically set forth differentiated work effort requirements for different types of activities and engagements. We note, for example, that Section R390 does not distinguish what practitioners need to do depending upon whether an engagement is an assurance engagement (including reasonable vs. limited assurance), an agreed-upon procedures engagement, a compilation engagement, or another engagement not covered by the IAASB (such as a consulting engagement).

In any case, IESBA has recognized in R390.5 and R5390.5 that there is some overlap with IAASB standards. For this reason, the proviso in paragraph R390.5 and R5390.5 "to the extent not otherwise addressed by law, regulation or other professional standards" also needs to apply to R390.6 and R5390.6 so that IESBA does not conflict with relevant IAASB standards regarding work effort for considering competence, capabilities and objectivity.

Reputational consequences of potential inherent duplication of effort

In paragraph 65 of the EM, IESBA recognizes that it may not be practicable to wait until the CCO evaluation has been completed before engaging the external expert as there may be unavoidable constraints, such as a tight window within which an external expert can complete the work, time needed for the external expert to secure the information requested for the CCO evaluation, etc. If, however, the CCO evaluation ultimately results in non-use of an expert's work, the costs (which could be considerable) will have been incurred and there may be insufficient time to have a second external expert perform work – all of which may reflect badly on both the individual PA and the IESBA Code.

We note the IESBA's deliberations outlined in the EM (paragraphs 68-71) and the possibility of developing transitional provisions and would urge IESBA to do so as a matter of urgency rather than later. We are also not convinced by the

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contention that ethical and performance issues can be separated in any decision as to whether safeguards can be used.

In our opinion, this is a key matter demanding a pragmatic solution.

We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Torsten Moser
Executive Director

Gillian Waldbauer
Head of International Affairs

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Appendix

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.

We do not understand why IESBA is introducing a new definition of expertise (knowledge and skills in particular field) at variance with the definition of the IAASB (skills, knowledge and experience in a particular field) without having consulted the IAASB on whether such a change is appropriate. One of the reasons why most jurisdictions require a period of professional experience beyond education and training for professional qualifications such as medical doctors and professional accountants is because experience has a quality of its own beyond knowledge, training or skills. The word “expertise” suggests extraordinary proficiency that can only be achieved through experience. For these reasons, we suggest that IESBA retain the definition used by the IAASB and – as a matter of principle – consult fully with the IAASB before considering such a change to the Code.

With respect to the definition of expert, it is unclear to us why an additional sentence about an individual’s organization is needed when the first sentence could simply state “An individual or organization”. Furthermore, if the requirements are directed towards both internal and external experts, the differentiation between the expertise possessed by an auditor’s expert (in a field other than accounting or auditing) and a sustainability practitioner’s expert (other than assurance) would need to be placed within the definition of expert, rather than external expert. The definition of external expert could then be limited to the first sentence (together with the material in italics).

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

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that should be incorporated in the evaluation of CCO specific to PAIBs, PAPPs and SAPs? See Section V.

We have three key concerns in this context.

Limiting the scope to external experts

As outlined in the body of our letter above, we disagree with IESBA's decision to limit the proposals to external experts.

When a PAIB or PAPP intends to use the work of an internal expert, any doubt the PA has regarding the expert's competence or capability for the PAs specific purposes could give rise to a threat to the PA's own compliance with the IESBA Code. In a worst-case scenario, for a PAIB an employing organization might hold an internal expert as sufficiently competent in a variety of fields, but that individual's specific competences would not reasonably be an adequate match for the exact purpose of the work the expert is asked to perform, or the employing organization may not allow the expert sufficient time or resources to ensure adequate quality of work. As far as a PAPP is concerned, we agree that reliance on the firm's quality management should ordinarily suffice as intended by ISQM 1, but the PAPP must be satisfied as to the expert's competence and capability for the PAPP's purposes.

Rather than excluding the consideration of internal experts from scope entirely, as a minimum, IESBA could consider a pragmatic approach requiring, in cases of doubt, an evaluation of whether an internal expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed in order to assess whether there is a threat to the PA's own compliance with the Code's fundamental principles due to the use of the work of the expert, and if so whether safeguards can address that threat.

A requirement to consider whether there are doubts could then draw upon paragraphs 290.6 A2- A3 and 390.6 A2-A3 and 5390.6 A2-A3, respectively (factors relevant for evaluating an expert's competence and capability) when there is a need for the PA to assess the competence and capability of internal experts.

Requiring an expert to supply information

We question whether an external expert will be willing and actually able to produce all the information for the duration of the time period required as foreseen by IESBA in R390.8 to R390.10.

Imposing onerous requirements on external experts prior to their engagement may be detrimental to IESBA's aims if it negatively impacts the availability of external experts to PAs – especially in new areas such as sustainability matters.

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In this regard we welcome the fact that, in paragraph 86 of the EM, IESBA states that it “does not expect that an external expert must set up, or have in place, a system of quality management similar to that expected for a firm or assurance practitioner.” and “ ... IESBA does not expect the external expert to set up an internal monitoring process on the financial interests of all of these parties. Instead, with due notice when agreeing the terms of engagement, the expert is afforded the opportunity to take the appropriate steps, in good faith, to gather the necessary information to disclose to the PA.” In this regard, we would like to point out that information completely unknown to the expert cannot actually influence the expert’s objectivity – only the perceptions of third parties and suggest that requiring the expert to disclose information known and to confirm the completeness thereof rather than expect a “search” would be equally effective and a more pragmatic approach.

The proposed requirements of R390.11 and R5390.11 are intended to cover value chain entities too. It is interesting here that the IESBA does not propose the PA or SAP request (full) information from the expert, but only that relevant information “of which they are aware”. To reduce the obligations for experts a similar approach could be envisaged for R390.8. to R390.10.

We support the clarification in para. 60 of the EM that immaterial and insignificant interests, relationships or circumstances should generally not result in the PA or SAP concluding that the external expert is not objective. As a practicality issue, we would suggest that the PA should establish a di minimis threshold or thresholds for information requirements, to ensure the expert would not be subject to potentially onerous obligations to supply information that includes information on clearly immaterial and insignificant interests, relationships or circumstances.

Availability of experts who perform work in the value chain

In regard to value chain entities, which we assume are also covered by the proposed requirements of R390.11 and R5390.11, it is not realistic to expect an expert can be objective in relation to the (ultimate) client (i.e., the expert, immediate family members and employing organization) in terms of interests, relationships and circumstances.

It can be anticipated that some forms of one-to-many reports will evolve where value chain entities are part of a number of entities’ value chains. Expecting experts involved in preparing such reports to be objective in relation to all such reporting entities will not be feasible.

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This aspect of the proposals is highly impractical and given the likely limitations in value chain assurance not in the public interest.

In this context, given that in the other ED section 5407, IESBA foresees a choice between work performed by the practitioner “at the value chain entity”, use of work by another SAP and the practitioner performing work on the sustainability information of the value chain without carrying out work “at that entity”, there is a concern that independence considerations may be predominant rather than quality considerations. Here a sliding scale approach and appropriate liaison with the IAASB will be crucial.

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.

We agree that an external expert must have the necessary competence, capabilities and objectivity for the accountant’s purpose and that in making his or her evaluation the accountant should take this purpose into account. We support the proposed wording of R390.6: “*The professional accountant shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the accountant’s purpose.*” reflecting the approach taken by the IAASB in ISA 620.09: “*The auditor shall evaluate whether the auditor’s expert has the necessary competence, capabilities and objectivity for the auditor’s purposes.*”. This wording implies a sliding scale in that the level of competence, capabilities and objectivity need to “fit” what is necessary for the PA’s purposes.

We suggest IESBA clarify that this is the intent and explain the factors that may be taken into account in evaluating whether the level of competence, capabilities and objectivity indeed meet what is necessary for the PA’s purposes.

We are also concerned to note that in contrast, R390.12 reads: “The professional accountant shall not use the work of the external expert if:

- (a) The accountant is unable to obtain the information needed for the accountant’s evaluation of the external expert’s competence, capabilities and objectivity; or*
- (b) The accountant determines that the external expert is not competent, capable or objective.”*

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And therefore, suggest the wording of R390.12 (b) be aligned to read: “The accountant determines that the external expert does not have the necessary competence, capabilities and objectivity for the accountant’s purpose.”

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).

We refer to our comments above in response to q. 2 concerning the information to be requested from an expert and all members of that expert’s team pursuant to proposed paragraphs R390.8 and R5390.8.

We assume the proposed requirements of R390.11 and R5390.11 are intended to cover value chain entities. It is interesting here that the IESBA does not propose the PA or SAP request (full) information but only that information of which the expert is aware. For the reasons explained above, we view this as a pragmatical approach, which could be used elsewhere.

In this context, we do not believe it is sufficiently clear that when the client is a group this would automatically cover subsidiaries and associated entities whose financial information is consolidated in the context of a financial statement audit.

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).

No. There are many sources of threat to PAs’ or SAPs’ compliance with the fundamental principles of the Code.

One of the more significant threats arises when a PA or SAP does not possess the necessary expertise on a subject matter beyond accounting and auditing in an audit or assurance in the case of assurance engagement but still does not use the work of an expert.

ISQM 1.32 requires firms to establish appropriate quality objectives in regard to human resources that also cover this aspect. In general, a PAPP should be able

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to rely on this. However, a PAPP might encounter circumstances where there are doubts concerning the competencies or capabilities of the PA or SAP or the engagement team.

The extant version of the Code discusses the threats and safeguards approach from the viewpoint that the accountant will be acting in a professional capacity in accounting and assurance related fields – not necessarily moving into new or emerging fields for which educational support is currently likely to be unavailable or only partially available. Whilst we acknowledge that the extant version of the Code refers to expertise in various ways and there are likely to be CPD requirements applicable to all PAs which together ought to ensure individual PAs take appropriate action to address any “gaps” in their own expertise, we believe the revisions to the Code could make it clearer that the “new and emerging” fields of corporate sustainability-related responsibilities and reporting requirements as well as assurance may currently often demand specific attention by PAs entering this new space. Whilst 230.2 states: “Acting without sufficient expertise creates a self-interest threat to compliance with the principle of professional competence and due care.” and section 270 explains the potential for “Pressure to act without sufficient expertise or due care” (270.3 A2) to create threats in this context and 300.6 A1 explains an intimidation threat can arise where “a professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question” also 320.3 A5 lists “Using experts where necessary.” amongst examples of actions that might be safeguards to address a self-interest threat. This said, we question whether this is sufficient or whether these proposed revisions to the Code should draw more attention to this potential threat in circumstances where a special type of expertise is needed/involved. The proposals start with the intention to use the work of an expert – not the need for a PA to consider whether recourse to an expert is necessary.

Request for General Comments

- *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.*

As above, we do not agree that the scope of the ED should be restricted to external experts. Generally, whilst larger firms may employ internal experts in various fields, SMPs will be more likely to use an external expert.

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By excluding internal experts entirely and requiring an evaluation of CCO in each case an external expert is used the proposals impose a disproportionate burden on SMPs. Indeed, we support a sliding scale whereby a PA or SAP who uses an external expert repeatedly (i.e. similar to using an internal expert) can rely to an appropriate extent on past evaluations of competence where engagements are for similar purposes.

Regulators and Audit Oversight Bodies

N/A.

Sustainability Assurance Practitioners Other than Professional Accountants

N/A.

Developing Nations

N/A.

Translations

Adequate time will be needed for translation and assimilation in practice.