

International Ethics Standards Board for Accountants
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Dear IESBA Board Members

Consultation on Using the Work of an External Expert

Mazars is an internationally integrated partnership specialising in audit, accountancy, advisory, tax and legal services. Operating in over 100 countries and territories around the world, we draw on the expertise of more than 50,000 professionals – 33,000+ in the Mazars integrated partnership and 17,000+ via the Mazars North America Alliance.

General comments

We welcome the opportunity to comment on the proposals for additions to the IESBA Code relating to the Using the Work of an External Expert.

We welcome and support the need for greater clarity in the Code on ethical considerations for the use of experts and applaud the efforts of the IESBA in developing these proposals. This is particularly timely as it is likely that the use of experts in sustainability assurance engagements may often be more extensive than in financial statements audits, meaning that there may therefore be greater dependence on subject matter experts in sustainability engagements.

While we support most of the proposals set out in the exposure draft, we have a number of concerns as highlighted in the responses to the specific matters for comment below.

Our major concern relates to the additional provisions relating to the evaluation of the external expert's objectivity in relation to audit and assurance engagements. We agree with the principle that additional work effort may be required for such engagements, but we do not believe that the proposals set out in the exposure draft are appropriate or achievable in practice. We do not consider it viable to expect external experts to provide much of the information required without incurring undue cost or effort in establishing systems to enable them to monitor compliance with "independence" requirements. These requirements raise the potential for experts to disengage from providing audit and assurance related expert services, impacting on the availability of experts and quality of audit and

assurance engagements. We therefore strongly urge the IESBA to reconsider these requirements. (Further detail is provided in our response to Question 4).

Responses to specific matters for comment

Glossary

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

Response

We do not support the proposed new and revised definitions included in the glossary. In expanding the content of the Code on the use of experts, we believe that definitions, in particular that of external expert, should be more closely aligned with the existing definitions used by the IAASB in their audit and assurance standards (ISA 620, ISAE 3000 and ED-5000).

We set out further comments on the definitions below.

Definition of expertise:

The revised IESBA definition of “expertise” refers only to knowledge and skills and excludes the element of “experience” as only a complementary factor that strengthens confidence in the expert. We note the difference between this proposed definition and that used by the IAASB, which includes knowledge, skills and experience in its definition of expertise.

Although, we understand the reasoning for excluding experience provided by IESBA in the explanatory memorandum given the use of experience in different contexts in the extant Code, the inconsistency between international standards is unhelpful. It is also possible, in the fast-moving environment of sustainability reporting in particular, that qualification by experience may become more relevant in the coming years.

Definition of expert and external expert:

The definition of “Expert” is intentionally broad and recognizes that an expert might be needed when the PA or SAP lacks sufficient expertise to perform a professional activity or service. However we believe that definitions in international standards should be consistent and aligned where possible. In that context, we question whether it is necessary to provide definitions specific to the IESBA Code and believe that the definitions provided in the IAASB standards are sufficient for the purpose of Code and should be used.

The two standard setting boards should work jointly on definitions to ensure that they are appropriate and suitable for audit, assurance and ethical standards as the IAASB finalises its proposed ISSA 5000 and IESBA finalises its changes to the Code.

We note that the explanatory memorandum specifically states that “another practitioner” is not considered to be an expert. This could be made clearer in the proposed application material.

Distinguishing between audit team members and external experts

We believe that the distinction between internal experts, engagement team members and external experts is clear, with experts providing expertise outside of assurance. However, further clarity could be provided over the status of subcontractors. For example, if a firm contracts with a subcontractor to

fulfill a specific skills requirement, would these individuals be considered to be experts or team members?

The flowcharts in Appendix 1 to the explanatory memorandum would be helpful if included in the Code as guidance. However, the flowcharts could be enhanced by clarifying the difference between “engaged” and “employed”.

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? See Section V.

Response

We support the proposed approach to evaluating an external expert's CCO for all professional services and activities (See our comments in question 4 regarding audit and other assurance engagements). We have not identified any additional considerations that should be incorporated.

However, we note that of the eight potential sources of information for this evaluation in proposed 390.6.A6/5390.6.A6, only one involves obtaining information from the external expert directly, by discussion. The extent of the work effort required to obtain information to support the evaluation is therefore not clear and could be onerous given the range of potential sources quoted. This is especially important in regard to audit and assurance services given the higher level of interest and the extent of information requested regarding the expert's objectivity (see also comments in question 4). Greater clarity and guidance on the work effort required, over and above requesting information directly from the expert, would be highly beneficial.

We agree with the IESBA that the Code should not preclude the external expert from beginning the work while the CCO evaluation proceeds, on operational grounds.

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.

Response

Whilst we understand the IESBA adopting the principle that there are no safeguards against threats if an expert does not pass the CCO evaluation and, therefore, it is not appropriate to use the work of an external expert where the PA or SAP concludes that the expert is not competent, capable or objective, there will be unintended consequences for audit engagements given the inconsistency between the Code and ISA 620, in which there is no such prohibition on using the expert. The IESBA and IAASB should work together to resolve this inconsistency in a suitable manner as a matter of priority.

We note the distinction between the requirements of ISA 620, where an auditor may perform additional procedures where work performed by an expert is not considered adequate for their needs, and the proposals here which relate to the more fundamental ethical considerations of the competence, capability and objectivity of the expert. However, we believe that these two situations should be treated in the same way. The auditor's assessment of the competence, capability and objectivity of the expert should not be a one-off exercise, nor should it necessarily be a binary “pass or fail” assessment. For example, if the expert is assessed not to fully meet any one of the three

criteria, but meets the other two, is this automatically a situation in which the work of the expert cannot be used in any way? This seems onerous and restrictive, and we urge the IESBA to consider whether a more nuanced approach may be taken to consideration of threats and safeguards which, similar to ISA 620, does not necessarily mean that the work of the expert may not be used.

We have similar concerns for assurance engagements and note that the draft ISSA 5000 sustainability assurance standard, for example, includes the following useful guidance “The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the practitioner’s external expert and the significance of the expert’s work in the context of the engagement. In some cases, it may not be possible to eliminate circumstances that create threats or apply safeguards to reduce threats to an acceptable level” which we believe appropriately permits the practitioner to use the work of the expert in some circumstances while acknowledging that there may be cases where it may not be possible to use their work.

Furthermore, in some speciality areas, such as new and emerging specialisms related to sustainability assurance, and in some jurisdictions, there may be a lack of alternative experts available where the work of an expert is needed, and it is not possible to identify experts which fully meet the criteria. This could have serious implications for audit and assurance engagement quality in those jurisdictions.

In our view, the IESBA Code should reflect the current situation in ISA 620 and ISSA 5000 and not have an outright prohibition on the use of the expert, permitting the use of their work some circumstances. The Code could further highlight additional considerations for the auditor or assurance practitioner, such as enhanced professional scepticism when evaluating whether it is appropriate and reasonable to use the work of the expert in the circumstances.

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).

Response

We do not agree with the additional provisions relating to the evaluation of the external expert’s objectivity in relation to audit and assurance engagements. While we agree that there is heightened interest in audit and assurance engagements regarding the objectivity of the external expert and that additional information may be required in order for the PA or SAP to assess objectivity, for example to address risks related to situations where experts have interests, relationships or other conflicts of interest with the entity, we believe that the current proposals are unworkable in practice.

We note that the IESBA considered whether to take an independence or objectivity approach to external experts for audit or assurance engagements, and we agree with the conclusion to adopt a focus on objectivity. There are good reasons not to adopt an independence approach, as noted in the explanatory memorandum:

- i. External experts will not necessarily have systems of quality management to oversee compliance with independence requirements

- ii. It would not be in the public interest to restrict the supply of external experts by imposing undue cost and burden by requiring such systems of quality management
- iii. It is the responsibility of the PA under audit or assurance standards to be satisfied that the expert is objective, and
- iv. The code does not directly apply to external experts.

However, it is not realistically achievable in practice for external experts to provide much of the information requested by the PA or SAP in accordance with R390.8/R5390.8 without establishing precisely those systems required to enable them to monitor compliance with independence requirements. In the absence of this information, it is not possible for the PA or SAP to comply with the requirements in R390.8/R5390.8 and effectively assess the objectivity of the expert.

For example, it is unlikely (perhaps even impossible) for an expert to provide the following information, for all members of the external expert's team (R390.9/R5390.9) and their immediate families (R390.8/R5390.8), along with the ability to provide any updates that might arise during the period (R390.10/R5390.10)) without establishing some form of monitoring systems:

- financial interests;
- loans, or guarantees of loans;
- close business relationships;
- positions as a director or officer of the entity, or an employee in a position to exert significant influence
- benefits received
- conflicts of interest
- the nature and extent of any interests and relationships between the controlling owners of the external expert's employing organization and the entity.

The IESBA is naïve in its statement that the guidance in R390.5 and 390.5A1 to discuss these requirements with the expert will “*mitigate the potential practical challenge of the expert declining to disclose the information...after the PA has engaged the expert*”. Furthermore, the IESBA is somewhat disingenuous in making the statement in paragraph 86 of the explanatory memorandum that “*...the IESBA does not expect the external expert to set up an internal monitoring process on the financial interests of all these parties*”, while going on to say that “*the expert is afforded the opportunity to take the appropriate steps, in good faith, to gather the necessary information*”. It is hard to see how reliable information, sufficient for the needs of the auditor or assurance practitioner, can be gathered without the implementation of systems.

Furthermore, there is plenty anecdotal and real evidence of regulation and seemingly onerous requirements impacting the willingness of entities to engage in undertaking audit and assurance activities. We believe that placing requirements on experts to provide the information required in R390.8/R5390.8 may impact their willingness to provide expert services for audit and assurance engagements, with a potentially significant impact on the availability of experts, competition, choice and most importantly the quality of audit and assurance engagements.

We strongly urge the IESBA to reconsider these requirements and whether the full list of information listed in R390.8/R5390.8 is really necessary and, if so, how the requirement may be amended to reflect that the expert's information may not be based on systems and processes and whether the PA or SAP is able to take the information provided at face value. (See also our comment in question 2 regarding the work effort required to evaluate CCO of experts).

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).

Response

We support the provisions and guidance around applying the conceptual framework when using an external expert. The guidance and application material in proposed paragraphs 390.14 A1, 390.15 A1 and 390.16 A1 to A2 with respect to identifying, evaluating and addressing threats to the PA's compliance with the fundamental principles when using the work of an external expert is helpful in guiding the PA/SAP when dealing with certain scenarios.

The guidance could be further enhanced by:

- including an example around threats arising from long association, where the auditor or assurance practitioner has used the same expert for a number of years, and
- clarifying the example provided for advocacy threats. In the example provided, presumably the expert would not pass the CCO test and therefore would not be appointed given that they are known to be biased.

Request for General Comments

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

- a. *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.**

We have no comments.

- b. *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.**

We have no comments.

- c. *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.**

We have no comments.

- d. ***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.

We have no comments.

- e. ***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 proposals.

Maintaining alignment between the international standards promulgated by the IAASB and IESBA would be helpful regarding translation.

Further discussion

If you would find it helpful to discuss any matters raised in this letter, please contact Paul Winrow, Partner, Audit Policy and Regulation (paul.winrow@mazars.co.uk).

Yours faithfully

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