

**April 30, 2024**

## **IFAC Response to the IESBA's Exposure Draft *Using the Work of an External Expert***

### **INTRODUCTION**

IFAC is the global organization for the accountancy profession. IFAC's membership comprises more than 180 professional accountancy organizations in over 135 jurisdictions, representing more than 3 million professional accountants in public practice, industry, government and education.

### **GENERAL COMMENTS**

IFAC is supportive of IESBA's aim to develop requirements and guidance in this area and we appreciate the time and resources the Board have put into this important project. The use of experts can have a beneficial impact on the quality of reporting and assurance, so requirements and guidance in this area are extremely important to both reporting entities and practitioners. The use of external experts is especially important for SMPs as they will often have less in-house expertise to draw on in specialist areas. This makes it essential that requirements in this area are designed appropriately.

We raise several significant challenges with the proposals made in the exposure draft (ED). Some of the requirements and guidance proposed may discourage the use of experts. Where requirements are too onerous or create barriers to the use of experts, this may have a detrimental impact on the quality of engagements, which would not be in the public interest.

The evaluation of competence, capability and objectivity is subjective with no "bright line" delineation, and there are cases where just a perceived challenge to objectivity would result in an inability to use the work of an expert. Any prohibition in this area requires a degree of inbuilt flexibility that allows relevant facts and circumstances to be considered. The wording of the current proposals in this respect will be especially problematic for SMPs and in jurisdictions where there are few experts in particular fields. Requirements around information that needs to be collected from experts before their work can be used will, in many cases, be excessive and disproportionate giving rise to additional administrative costs without corresponding benefits.

There is need for continued efforts in relation to both the consistency in approach and terminology between the IESBA and the IAASB, and we note there are some challenges with regards to both. The exclusion of internal experts from the scope of the proposals creates inconsistencies with the recent ISSA 5000 ED<sup>1</sup> and guidance in auditing standards such as ISA 620<sup>2</sup>. This may also create challenges for compliance with the Code for PAIBs, PAPPs or SAPs that use internal experts, as there is no guidance on assessing relevant competence and capability for the specific activity being undertaken that they can draw upon. We also urge the two Boards to consult more with one another and align the timing of finalization of any revisions to avoid a situation where the proposals of one Board become a "fait accompli" the other Board is left to address.

We have outlined our detailed responses to the questions (in bold) below.

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<sup>1</sup> IAASB Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

<sup>2</sup> ISA 620, *Using the Work of an Auditor's Expert*

## REQUEST FOR SPECIFIC COMMENTS

### Glossary

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

There are challenges we wish to raise for both terms that have been added to the glossary, expertise and expert, and for the term external expert, which has been revised. The definition of expertise focuses on knowledge and skills in a particular field. This excludes 'experience' which will create an inconsistency with ISA 620 where paragraph 6(b) defines expertise as "skills, knowledge and experience in a particular field". In some emerging fields such as sustainability and technology there will be unprecedented demand for experts who, whilst having the requisite skills and knowledge, could be argued to lack experience due to work in this area being new. As such, it is understandable if experience has been omitted due to the practical challenges this might create. However, consistency in definitions between the IESBA and IAASB is important, and it is not clear from the explanatory memorandum (EM) whether the IAASB intend to revisit their ISA 620 definition which would make this inconsistency temporary and therefore more appropriate.

More generally on consistency between the IAASB and IESBA, comments received in relation to the IAASB's ISSA 5000 ED are likely to result in changes to the standard, which could impact any planned alignment on terminology and definitions. It is essential that the two boards cooperate and confer with one another to ensure the approach, terminology and definitions remain consistent prior to the release of final pronouncements for either project.

The definition of expert is anchored to the assurance provider's competence, whereas the EM states that an expert is used when the assurance practitioner has a lack of expertise (defined as knowledge and skills). It is not clear whether it is intended for competence to equate to expertise in this respect. If this is not the case, the competence, capability and objectivity assessment (CCO) would appear to omit consideration of knowledge and skills, implying it is not necessary for an expert to possess these. As such, the definition and relationship to the CCO assessment is confusing and should be clarified.

The definition of expert also cross-references the term expertise. This appears to add needless complexity considering expertise is defined through knowledge and skills and as such these two words could be incorporated directly into the definition of expert. The glossary is intended to be helpful, but unnecessary cross-references can add length and complexity to the Code without generating corresponding benefits. Cross referencing other terms should be limited to where there are complex or lengthy definitions that need to be incorporated into other concepts.

There are several concerns over the definition of external expert. In terms of consistency with IAASB, ED ISSA 5000 uses the term 'external experts' in numerous places but provides no definition within that standard. It is thus not clear that this definition is necessary within the IESBA Code.

The definition given also refers to "expertise in a field other than accounting or audit", which could raise issues. Areas such as valuation are flagged in paragraph 18 of the EM as an example of a non-accounting service, but in some jurisdictions, elements of valuation services would be considered accounting services. Additionally, if an expert assisting an auditor has audit experience, or if they develop this through the course of their work with auditors, they will potentially fall in breach of this definition. The proposed wording creates scope issues as it may be taken to imply that once you have gained sufficient skills and expertise in audit that you can no longer be an external expert in a different field. The reality, of course, would be that the

expertise would become more relevant in this situation. Whilst the wording is not intended to be read in this way, the ambiguity it leaves is problematic so will need to be rectified.

There is also a challenge around the definition of external expert being of a 'negative' type. Direct guidance of who is a member of the engagement team or sustainability assurance team (through their ability to directly influence outcome of work), rather than focusing on who is not, may have been more appropriate with some specific examples to illustrate.

### **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 support the general approach of an assessment of CCO being made, but the requirements outlined are problematic in relation to competence, capability and objectivity. For large and complex engagements, especially those concerning emerging areas like technology or sustainability, the assurance provider could be the leader of a very diverse group of people practicing in very different fields and different geographical locations. Experts that the assurance provider will need the support of may not necessarily have the same professional oversight as PAs. This mandates the need for some pragmatism in approaches towards using experts. An acknowledgement is needed that the quality of engagements is improved through the use of suitable experts, so any undue barriers to their use will be problematic and have a detrimental impact on the public interest.

In relation to competence, in our response to question 1 we have already discussed the relationship between competence and expertise and request further clarity be provided in this area. The limitation of the proposals' scope to external experts may also raise some questions. Assessment of competence and capability of internal experts would also be important, especially in broad emerging areas like sustainability where in-house ESG specialists may have knowledge and skills in some areas, but not necessarily the level required in the particular areas that are relevant to activity or engagements they are used on. As the time and availability of such specialists may be limited due to scarcity, there could also be questions around capability to complete work too. We note the treatment adopted in these revisions is inconsistent with IAASB standards. The ED for ISSA 5000 refers to experts rather than external experts, and ISA 620 covers both internal and external experts. We understand challenges with expanding scope at this stage, but this is an area where requirements and guidance would be useful to ensure PAIBs, PAPPs and SAPs are complying with good ethical practice and making use of appropriate expertise. It may be useful for IESBA to consider whether in some circumstances (e.g., where there are conditions that flag an internal expert may not be suited to contribute to an activity or engagement) an evaluation of an internal expert's competence and capability would be necessary.

There are also challenges around the treatment of objectivity. Paragraph 20 of the EM implies that a management's expert cannot be objective. This statement is concerning as there will be Professional Accountants in Business (PAIBs) carrying out duties within entities that are bound by the IESBA Code. Following this implication through, this would suggest there are consistent breaches of the fundamental principle of objectivity by such PAIBs.

With regards to the evaluation, the requirements to gather information are excessive. R390.8 sets out a list of actions which should be taken. We note this is a lengthy list which is within an 'R' paragraph creating obligations to obtain all of this information to make the required assessment. The list would appear to be

more suited to serve as examples within application guidance as we expect many experts would be unable to provide definitive responses in relation to all these items whilst it would be challenging for the assurance practitioner to obtain this information through other means. Our preferred approach would be to put this listing within application guidance instead of requirements, as this has the potential to create barriers to experts being used on engagements. We note that similar is repeated in R5390.8, so any adjustments made would also need to be reflected there. If this is to be retained in requirements, we strongly encourage the IESBA to consider making this area less onerous, the removal of the word 'any' from the requirements would be a start. De minima thresholds could be used, so that only information relevant to the PA's or SAP's conclusion is collected. Information completely unknown to the expert cannot actually influence the expert's objectivity – only the perceptions of third parties. Logically, requiring the expert to disclose known information and to confirm the completeness thereof rather than expecting the expert to perform a "search" would be equally effective and a more pragmatic approach at this stage. A pragmatic approach should also reflect the fact that not all work performed by an expert will be equally significant to the outcome of the engagement.

These requirements are especially important to get right considering the very binary prohibition if CCO is not met. Generally, where threats are examined in the Code, there is consideration of effective safeguards that can be put in place before a prohibition is made. This is not the case where the CCO evaluation is concerned as we will discuss further in our response to question 3.

There may also be additional challenges where a client has multiple affiliated entities and external experts are performing work that affects group assurance engagements, as the scope of assessment is not entirely clear. Further guidance on the scope of entities subject to the assessment of objectivity should be provided within the requirements or application guidance.

### **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 oppose the manner of this prohibition, and also recognize the proposals will raise practical challenges and that they are inconsistent with ISA 620. If an expert is not CCO under ISA 620, an evaluation of the work of the expert is required and complementary activities can be undertaken to retain use of the work completed by an expert. The approach here goes further in that it prevents the use of an expert if CCO cannot be established. This would interfere with the ability of an auditor to use ISA 620 as intended, and as such the requirements are prohibitively onerous. The wording in R390.12 which states the professional accountant shall not use work of external expert if they cannot obtain the information needed to make an assessment of CCO further compounds the issue with reference to the list of items in R390.8 previously discussed (requirements which are repeated for sustainability assurance in R5390.12 and 8).

An assessment of competence under the proposed approach will be highly subjective, as experts will have differing levels of competence and it is unclear what the required level to satisfy the CCO evaluation is, or whether this is high or low. Linking a prohibition to use experts to a subjective assessment will be problematic. The availability of required information will also create issues as it will be difficult in many cases to form a definitive view. Such difficulties will be increased where an expert from another jurisdiction is used, meaning the practitioner may have less awareness of professional practice and other relevant factors in that jurisdiction. Practically, this assessment will often be made without complete information.

It is also difficult to understand the practical basis upon which the assessment of competence should take place. For example, is reliance on the formal certification of experts sufficient, and if so, would this always

be available? Alternatively, if examination of prior work needs to take place, would this be possible? Where practitioners are dealing with parties that have superior knowledge and experience in their own field, these will always be challenging assessments. It is recommended that wording in this area is revised to provide clarity and any particular thresholds and bars necessary for the assessment are disclosed to assist practitioners in dealing with uncertainty.

In areas like sustainability, we have noted elsewhere in our response the use of experts will improve the quality of information and of the engagement so the exclusion of experts will be problematic from a public interest perspective. The CCO assessment is detailed and requires significant information that many experts may not be able to provide, so there is a challenge to how strenuous requirements should be to ensure the public interest is best served. The IESBA acknowledges transitional requirements may be needed due to lack of experts in certain areas, but it is not clear whether the prohibitions to use experts if CCO requirements are not met would apply from the effective date or the length of transition period these could be afforded. Transitional provisions will also not assist new areas that emerge requiring input from experts, so will cause ongoing problems in the future. We appreciate the approach taken in this area may be rooted in a desire for simplicity, but this comes with consequences. We note the approach under ISA 620 is more pragmatic than in the proposed revisions here, although in this case there is an established understanding that there will be specific challenges in relation to known new areas where it will take time to establish experts and expertise. As such, the proposals fail both in terms of consistency with extant requirements elsewhere and in terms of pragmatism.

The objectivity assessment will be equally challenging where there are very few experts in certain fields, especially in certain jurisdictions. This could create situations where it is impossible to express an opinion or a conclusion during an engagement. Provisions should be made that permit the use of an external expert even if objectivity is not fully satisfied to assist in such cases, this would be more aligned to the approach that allows application of safeguards in ISA 620. The auditor should have the responsibility for ensuring there is no significant impact on the engagement in relation to objectivity issues.

Finally, proposed R390.6 states: “The professional accountant shall evaluate whether the external expert has the *necessary* competence, capabilities and objectivity *for the accountant’s purpose*.”, thus recognizing the need to consider the individual engagement circumstances and degree of reliance on the work of an expert. In contrast proposed 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.”

The wording of the R390.12 (b) should at minimum be amended to reflect the consideration of ‘necessary’ competence with wording such as ‘The accountant determines that the external expert does not have the necessary competence, capability or objectivity’. The inclusion of necessary would imply the assessment allows for the exercise of judgment and consideration of the individual engagement circumstances and degree of reliance on the work of the expert. The preferential option, however, would be to make this position explicitly clear either through rewording the requirement itself or through providing supporting application guidance. R390.12 (a) is problematic when considered alongside the extensive list of required information in R390.8 that has been discussed in our response to question 2. Overall, the challenges with the CCO assessment mean the resulting prohibitions if requirements are not met are inappropriate. Where the assessment is made on the subjective basis outlined, this should not result in a binary test. There is a

critical need for flexibility to be built into this approach to prevent appropriately competent, capable and objective experts from being used.

#### **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?**

The construct of requirements in this area, including highly rigorous provisions relating to the assessment of objectivity, create too many barriers to be fit for purpose. Additionally, there will be practical challenges for assurance practitioners to obtain the required information from experts. This will especially be the case when dealing with people from outside of the accountancy profession and experts who are unfamiliar with working with assurance providers so may not understand the context in which the information is being provided. The practitioner will have no ability to force the expert to provide information, and if there is a failure to receive, they are unable to use that expert. As we have previously discussed this could have a detrimental impact on the public interest by preventing the use of adequately skilled and knowledgeable experts.

There are also challenges around the treatment of objectivity as a concept. Paragraph 84 of the EM identifies it was not possible to delineate the approach for external experts used in PIEs or other engagements because “the fundamental principle of objectivity cannot differ for different clients given that it concerns ethical behavior”. However, as there are additional proposed provisions in this area, it is not clear whether delineation can occur in the context of audit and other assurance engagements to give rise to such provisions. Clarity could be provided on what this practically means for such engagements - will there be a different level of objectivity or a more stringent test? The wording of paragraph 84 of the EM may also be problematic in that it implies that independence doesn't concern ethical behavior, in the same way objectivity does. The elevation of one of the fundamental principles in comparison to another could set an inappropriate logic.

#### **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 support the provisions that guide practitioners but acknowledge the reality of the current environment with factors such as technology, and sustainability, meaning there are new work areas that could give rise to a wide range of factors that could impact the use of experts, as well as when recourse to an expert is needed. As such, it may be too early to make an accurate assessment of all of the risks at this time. The IESBA should consider whether these revisions to the Code should be used to draw more attention to the potential threat of not using an expert in circumstances where a special type of expertise is needed i.e., initially regarding new and emerging areas where many PAs would not necessarily possess the required levels of expertise yet.

One area where we would like explicit clarity in approach within the ED is around objectivity considerations for the value chain. Paragraph 112 of the EM makes it clear that that Part 5 equivalent to Section 390 does not intend to expand the evaluation of objectivity to value chain entities as this would neither be practicable nor manageable. We agree with this position but note that explicit clarity on the exclusion of the value chain from this assessment is not clear from the wording within the ED itself. This should be made explicitly clear in Code requirements or guidance, as the context of the ED will not be available for users of the final pronouncement.

## **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)**

We have already noted that sustainability information will increase estimates and judgments used in reported information subject to assurance and the maximization of quality in generating these is in the public interest and use of experts will have a role in this. Barriers to using external experts will be hardest felt by SMPs, who are unlikely to have the same level of in-house expertise as larger firms and may consequently result in diminished quality on engagements, which is clearly not in the public interest. The cost of compliance with additional requirements could also be high and would need be added to the cost of monitoring and enforcement. This burden would be most challenging for SMPs that do not have existing dedicated compliance teams.

As we note in our response, obtaining information from experts and the assessment of their objectivity will raise challenges too. Paragraph 85 of the EM states scalability is already built into the objectivity approach which is scaled based on the nature of the engagement and the PA's evaluation of the expert's interests, relationships and circumstances. It is difficult to see how this works practically. As we note, paragraph R390.8 of the ED features a large list of information required from the expert, with many of the bullets starting with 'any'. This amounts to an incredible level of information needed, which if it is not obtained, an expert cannot be utilized. As we note, this is a 'R' paragraph rather than application guidance and taking one element of this further as an example, (i) states that the practitioner needs to be aware of any previous public statements by the external expert or their employing organization which advocated for the entity. It is not clear how a PA is supposed to search for such statements and where the line is between what the expert provides and what the practitioner then needs to search for to supplement this. SMPs will struggle to find experts willing to supply the information and to identify and maintain all further information, so the requirement is an example of something posing a real problem and this is similar for other items in this list.

The inability to place reliance on management experts as covered in paragraphs 19 and 20 of the EM could also be particularly problematic for SMPs. Where management's experts are appropriately qualified, and threats of management bias are low, it may be appropriate to permit reliance on the work of such an expert. Regulated professions using standardized inputs to create standardized reports, such as the work actuaries do, would be a good example especially where Governments set key parameters such as assumptions about mortality etc. There would also be contractual terms of engagement that management can provide to evidence the nature and terms of the engagement with the expert. The work may also be completed in a field bound by a strict code of ethics. It is difficult to see, in such a situation, why there would be challenges to objectivity that the auditor could not safeguard against provided a robust assessment of objectivity threats

has taken place. This would differ from some services such as valuation, where an expert may take direction from management, so the issue in such cases is clearer. Perhaps a focus on the extent of direction management can exercise should be the point that is considered to assess objectivity and the ability to place reliance upon work.

### **Regulators and Oversight Bodies**

We note the intention to make elements of the Code standard neutral and profession agnostic and are supportive of the general principle behind this, but there are challenges for practical implementation of this approach. Monitoring and enforcement of compliance with Code requirements for PAs is established through set procedures firms put in place and through oversight provided by PAOs, and regulators. Monitoring and enforcement for non-PAs applying the Code is undeveloped and it is not clear how this will take place or who will have responsibility for this. We note that it is not the job of the standard setter to ensure such measures are in place, but the absence of these would impede the ability for the Code to be applied effectively by non-PAs and would create an unfair situation for PAs who incur considerable costs in maintaining the required processes and oversight.

### **Developing Nations**

In addition to the general challenge the exclusion of reliance on the work of management's expert will create for SMPs, it has to be noted the impact of this may be harder felt in smaller territories. In such places, there may be only a handful of experts operating in areas such as valuation and actuarial services. The inability to be able to assess their work as objective could create real practical challenges to using experts on engagements. In such areas, if management are already using the most capable and competent experts in a particular field from the small number available, it is difficult to see on occasions where SMPs could access competent support. They would not have the same access to larger networks of professionals, including in other geographic areas, as larger firms.

The IESBA should recognize that in small territories, many of which will be developing nations, the pool of available experts will be very small, theoretically only a single provider may be available. If these experts are operating under conditions that already reduce threats to objectivity. For example, for pensions valuation there may be standardized, or government set parameters such as salary increase assumptions or mortality rates that the actuary is required to use, which would reduce the threat of management bias in estimates. In such a case it may be appropriate for the auditor to be able to rely on such work. For a client where there is a significant risk posed by the materiality of such matters, or if there are contentious issues, seeking an expert to validate that such parameters have been correctly applied and calculations correctly performed may be appropriate. However, to manage cost and practicality on smaller audits and assurance engagements, where such efforts would not provide significant value, reliance on managements expert after due consideration of competence and objectivity would be favorable. The blanket rejection of management's experts being objective means that such considerations cannot be applied by the auditor/assurance practitioner. We acknowledge there are occasions where an expert used by management is an extension of management, but this is not in all cases.

### **Translations**

As we have noted on other consultations in the past, the language used in the Code could create challenges for translation and sufficient time will be needed for translations before new or revised provisions of the Code enter into force. The wording of requirements and guidance is especially important where there will be global and profession agnostic use. It is possible translations may be carried out by organizations or



actors who have no previous familiarity with the Code, so the text used should be comprehensible across different cultures with suitable terminology. We request that the IESBA bear this point in mind and place a focus upon avoiding unnecessarily long sentences and implementing concise and easy to understand language, reducing the use of technical terminology and trying to repeat exact words rather than using synonyms where possible. Consistency between IAASB and IESBA for terminology also becomes especially important in this case for similar reasons.

We would also recommend that IESBA start looking at developing and maintaining translation libraries. Within these, key terminology that needs to be translated in a particular way for the profession and those outside the profession who will now be using Code could be captured. These will help prioritize certain translations of such terminology and the libraries can be used regardless of whether translation occurs through traditional means or is AI generated. This takes further importance with non-PAs now exposed to wording within the Code and could create efficiencies for translation.

### **CONCLUDING COMMENTS**

We hope that the IESBA finds this letter useful. IFAC is committed to helping the Board in whatever way we can with the proposals in relation to using the work of an external expert.