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## **Exposure Draft: Using the Work of an External Expert**

Dear Mr Siong,

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG global organization.

We appreciate the timeliness of this project given the increasing demand for sustainability assurance engagements and the expectation that the involvement of external experts may be an important feature of such engagements. We agree that a professional accountant (PA) or sustainability assurance provider (SAP) should evaluate the competence, capability and objectivity (CCO) of an external expert when they intend to use that expert's work to obtain sufficient appropriate audit or assurance evidence. We also agree that the use of the external expert's work could create threats to the PA's or SAP's compliance with the fundamental principles.

We have differing views, though, on certain components of the standard's proposed approach to the evaluation of objectivity. We believe that excluding the consideration of threats to the external expert's objectivity and disallowing the application of safeguards seems to not only be in conflict with the Code's conceptual framework, but also in opposition to the auditing and proposed sustainability assurance standards. The evaluation of the external expert's objectivity, as well as competence and capability, should be from the viewpoint of whether or not the expert has the "necessary" CCO which includes consideration of the nature and extent of the audit or assurance evidence to be obtained.

Further, we do not support the evaluation of an external expert's objectivity in an audit or assurance engagement being performed through application of independence attributes. It is unnecessary to apply independence-level considerations to an external expert who is not part of the audit or assurance team and who does not have the ability to directly impact the audit or assurance engagement. Additionally, applying "independence through [the] lens of objectivity" potentially gives rise to misconceptions and false expectations due to the lack of

clarity. This will also increase the risk of inconsistent application of the standards as there will be uncertainty among practitioners of what is required.

We also believe the proposed requirements for audit or assurance engagements may create significant barriers to engaging external experts. The challenges for external experts to gather the requested information will be extensive, as their organizations likely do not have monitoring processes or systems in place, or a system of quality management. It will be onerous and costly for these individuals/organizations to be able to fulfill the proposed request from the PA or SAP and these costs will be passed on to the client and its stakeholders. These barriers may be so challenging that external experts could be dissuaded from accepting such engagements, leading to a potential shortage of experts. Due to these significant concerns, coupled with the fact that we do not believe it is appropriate to apply independence attributes to external experts, we do not agree that the additional provisions for an audit or other assurance engagement are in the public interest.

We have proposed alternative approaches in the appendix to this letter, which provides our responses to the specific questions posed in the Exposure Draft.

Please contact Karen Bjune at [kbjune@kpmg.com](mailto:kbjune@kpmg.com) if you have questions on any of the points raised in this letter. We would be happy to discuss our views with you.

Yours sincerely



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## Appendix: Responses to Specific Questions

### Glossary

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

In general, we support the proposed new and revised definitions. However, we note that paragraph 88 of the Explanatory Memorandum (EM) states, "The proposed new definition of an external expert pertains to an individual only" and, as such, excludes the external expert's organization, if applicable. That approach is not followed through in the proposal, as certain provisions refer to both the external expert and their employing organization. This apparent inconsistency should be clarified or corrected.

The proposals would benefit from further guidance to assist practitioners in practically interpreting the difference between external experts who are part of the audit or assurance team (i.e., those with technical or industry-specific expertise who can directly influence the outcome of the engagement (who may be external to the firm)) and external experts who are engaged to assist in obtaining sufficient appropriate evidence in an area that is not accounting, auditing or assurance. We recognize this topic is addressed in questions 8 and 9 in the Staff Q&As of the *Definition of Engagement Team and Group Audits* standard, but believe additional guidance is needed for appropriate implementation.

### 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 Code addressing the need for an external expert to have CCO in relation to the work they are engaged to perform by a professional accountant (PA) or sustainability assurance practitioner (SAP). For professional accountants in public practice (PAPPs) and SAPs, this supports the current audit and sustainability assurance engagement requirements in ISA 620 and the proposed ISSA 5000. We also agree there should be an evaluation of the external expert's CCO.

In paragraph 29 of the EM, the IESBA notes they "endeavored to avoid... incorporating provisions relating to the performance of audit or sustainability assurance procedures in the proposals versus encapsulating ethics-related considerations."

Still, in setting out the approach for evaluating CCO, the proposals in the Exposure Draft go beyond ethics standards and recreate the performance standards for audits and

sustainability assurance engagements. This is because while the evaluation of external experts does not relate to the performance of audit or sustainability assurance procedures, it does form part of the audit or sustainability assurance work to be undertaken by the PAPPs or SAPs as required in ISA 620 and the proposed ISSA 5000. For instance, the factors to evaluate the external expert's CCO in paragraphs 390.6/5390.6 A2, A3, A4 and A6 are already captured in ISA 620 paragraphs A14 through A20 and ISSA 5000 paragraphs A108 through A116.

We believe the preferable approach for a PAPP and SAP is to defer to the performance standards for how the evaluation of CCO of an external expert should be performed as those standards govern the work to be completed by the engagement team and the judgment to be applied when obtaining and evaluating information to be used as evidence in the audit or assurance engagement. If an external expert is retained by the PAPP or SAP, the audit partner or engagement leader remains ultimately responsible for the work of the external expert. They are expected to have sufficient understanding to be able to decide whether the external expert's work is appropriate for their purposes and have the skepticism to challenge it if needed.

At the same time, we do understand that in trying to develop framework neutral ethics standards, the IESBA is not assuming that the evaluation factors are in all possible audit or sustainability assurance frameworks. Therefore, while we encourage any duplication of the examples and factors in ISA 620 and ISSA 5000 to be minimized in the Code, if the examples and factors in evaluating the external expert's CCO in paragraphs 390.6 A2-A6 and 5390.6 A2-A6 are retained, we encourage the related language used, especially in Part 5, to be as close to the ISA/ISSA language as possible. This approach will prevent varying interpretations that may result due to differences in wording between the ethics standards and the performance standards.

As an example, the factor in 290.6/390.6/5390.6 A2 could be edited to mirror ISA 620 A16 and substantially align with ISSA 5000 A111 by stating:

“Whether the external expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.”

If the evaluation factors in Part 5 are retained, we also note the following specific comments related to the proposed language:

- In evaluating competence, how would the PA/SAP determine “Whether the external expert can explain their work, including the inputs, assumptions and methodologies used” as this is presumably a list of factors that should be considered before engaging the external expert? [paragraph 290.6/390.6/5390.6 A2]
- In evaluating capabilities, how would the PA/SAP determine “Whether the external expert has sufficient time to perform the work”? We would expect that any response

from the external expert related to sufficient time would need to be taken at face value by the PA or SAP unless there is other guidance that can be given.  
[paragraph 290.6/390.6/5390.6 A3]

- In evaluating objectivity, how would the PA/SAP determine “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”?  
[paragraph 290.6/390.6/5390.6 A4]

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?**

The proposals in paragraph R290.7/R390.12/R5390.12 establish that if the PA or SAP determines the external expert is not CCO, the PA or SAP cannot use their work. We disagree with the wording being used as the evaluation undertaken by the PA or SAP is to determine if the external expert has the *necessary* CCO, or put differently, if the external expert has sufficient CCO for their involvement in the professional services in question. In particular, a requirement that the external expert’s work cannot be used if they are not objective (instead of a requirement that the external expert’s work cannot be used if they do not have the necessary objectivity) is not in line with the conceptual framework’s approach to identifying threats to the fundamental principles, evaluating those threats, and applying safeguards to reduce threats to an acceptable level. As a comparison to the IESBA’s proposed binary evaluation, the PCAOB’s AS 1210 standard approaches CCO on a spectrum. AS 1210 provides that “The engagement partner and, as applicable, other engagement team members performing supervisory activities should not use the work of a[n auditor-engaged] specialist who does not have a **sufficient** level of knowledge, skill, and ability.” AS 1210 otherwise provides that the auditor’s assessment of the specialist’s knowledge, skill, and ability affects the auditor’s determination of the necessary extent of the review and evaluation of the specialist’s work. The AS 1210 standard further notes “The auditor’s assessment of the specialist’s objectivity affects the nature and extent of the auditor’s procedures to evaluate the data, significant assumptions, and methods that the specialist is responsible for testing, evaluating, or developing. Note: The evidence necessary to assess the specialist’s objectivity depends on the significance of the specialist’s work and the related risk of material misstatement.”

We believe that the appropriate approach is to apply the conceptual framework in relation to objectivity before concluding whether the external expert has the CCO *necessary* for the PA’s or SAP’s purposes. The facts and circumstances of the engagement and the evidence to be obtained from the external expert’s work are an important part of the judgment involved. If, after considering these facts and circumstances and applying potential safeguards for threats to objectivity, the PA or SAP concludes that the external expert does not have the necessary CCO, then we agree the PA or SAP should be prohibited from using their work.

This approach is aligned with ISA 620, where paragraph A18 states in relation to objectivity: “A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Such threats may be addressed by eliminating the circumstances that create the threats or applying safeguards to reduce threats to an acceptable level. There may also be safeguards specific to the audit engagement.” To disallow application of the conceptual framework to address threats to objectivity would be in direct conflict with ISA 620 and with the Code.

Given the requirements for the evaluation of the use of an external expert are duplicated in the Code, practical application material should also be added to the Code to help PAs and SAPs make the necessary evaluation. Without such, the CCO evaluation will be subject to a wide degree of interpretations across the globe.

ISA 620 paragraph A19 states: “The evaluation of whether the threats to objectivity are at an acceptable level may depend upon the role of the auditor’s expert and the significance of the expert’s work in the context of the audit.” This implies that the extent of the evaluation and the CCO that is necessary will vary case by case, depending on the nature, scope and objectives of the external expert’s work. As the proposed paragraph R390.12/R5390.12 hinges on the determination of whether the external expert does or does not have the necessary CCO, it is crucial that the proposals contain practical guidance to help the practitioner arrive at a conclusion as well as allow for an evaluation of potential threats to objectivity and application of safeguards. Without this, the elements of operability and enforceability in the PIOB’s public interest framework will not be met.

#### *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?**

In paragraph 25 of the EM, the IESBA states that they propose the evaluation of the external expert in an audit or assurance engagement be performed through the lens of objectivity because it “will appropriately address the public interest expectations concerning external experts, while balancing considerations relating to scalability, proportionality and implementability under the Public Interest Framework.” Paragraphs 75 and 76 go on to say the IESBA has chosen to take an objectivity approach as opposed to an independence approach because 1) the Code does not directly apply to external experts; 2) external experts will not have a system of quality management as

they are not subject to the direction, supervision and review of the firm; 3) it is the responsibility of the PA or SAP to make a determination of the external expert's objectivity; and 4) it is not in the public interest for the Code to constrain the supply of external experts. Further, in its summary of feedback from the roundtables, the Task Force acknowledges in paragraph 60 that the Code cannot impose independence requirements directly on the external expert. We agree with the positions taken by the IESBA in these paragraphs of the EM as the external expert, as defined, does not directly influence the audit or other assurance engagement and thus, independence is not necessary.

We agree that in the current landscape there will be an increasing need for the use of external experts, particularly in the case of sustainability assurance. However, we do not agree that the IESBA's proposals are a proportional response, given a lack of data to suggest the current framework in the performance standards or ethics requirements for PAs (and SAPs) is not fit for purpose. As stated above, while the Task Force acknowledged the Code cannot impose independence requirements directly on the external expert, the proposals appear to have that effect.

The language used by the task force indicates that the concept of "independence" is being conflated with the concept of "objectivity." For example, in the IESBA global webinar for *Using the Work of an External Expert*, there was a statement made that included "the fundamental principle of objectivity which includes consideration of independence." Section 112 of the Code does not include independence in the explanation of the fundamental principle of objectivity. When an individual is independent, this facilitates their objectivity (thus the statement in Section 120 of the Code that independence is linked to objectivity), but the opposite is not true. An individual that is objective is not necessarily independent, nor would they necessarily need to be. By bringing in the list of interests, relationships, and circumstances in proposed paragraph R390.8/R5390.8, the proposals bring in the level of considerations that are used to facilitate audit/assurance team and firm independence from the audit client. The confusion that this conflation will bring may be further exacerbated by the need for translation in non-English speaking jurisdictions.

Additional points regarding these provisions:

- Expanding the provisions in proposed paragraph R390.8/R5390.8 beyond the external expert, to pull in interests and relationships of their team, and in some instances their organization, its controlling owners and their immediate family members, is not only impractical, but it broadens the scope to where the connection between those interests, relationships and circumstances to the individual external expert's objectivity is increasingly remote. At the same time, the added work for the external expert and extra costs passed on to the client and its stakeholders are not in the public interest. The level of effort and, more importantly, reliability of the information to be provided is a key consideration when making such proposals, as the external expert would need to have some sort of system or internal processes and controls in place to be able to gather the requested information and ensure the

expected level of accuracy, as well as monitor future changes if the external expert were to be used by the PA/SAP over a period of time. We do not believe it is necessary or, given the amount of work that would be involved, practicable for external experts to achieve the proposed outcome. The external expert may also decide to decline to be engaged due to the difficulties involved.

- The proposals do not specify what action the PA/SAP is expected to take with the information provided by the external expert. As we noted in the previous paragraph, the completeness and accuracy of the information is not likely supported by processes or systems that capture or verify such information. It would not be possible for the PA/SAP to validate whether the information the external expert provides is correct, given the PA/SAP does not have access to the underlying records. Regardless of the completeness and accuracy of the specific information the external expert provides, it appears the PA/SAP will need to accept it as presented, which is not aligned with other situations where independence is required. For PA/SAP firms/networks where this information is collected and monitored, that system is effective because of the controls, training, required confirmations, etc. that are part of an overall system of quality management.
- The provisions in proposed paragraph R390.10/R5390.10 state the need for the external expert to communicate any changes in facts or circumstances during the period. Without a system of continuous monitoring in place, it seems unlikely that all changes to facts or circumstances related to the list of independence attributes for the external expert, their team, employing organization, its controlling owners and immediate family would be known by the external expert.
- An additional challenge is the potential for reduced incentive on the part of the expert to maintain compliance with the imposed independence attributes given it is the PA/SAP who would bear the repercussions of a resulting breach of the Code and not the external experts themselves. Coupled with the previous comment on a likely lack of processes and controls to track and monitor the extensive interests and relationships required by the proposed independence attributes, this point supports the need to keep these requirements solely focused on objectivity. Instead of incorporating independence requirements, the proposals should allow the PA/SAP to assess whether the external expert still has the necessary objectivity combined with what additional audit or assurance procedures, if any, are needed.
- Certain information requested may be proprietary and confidential. In this case, the external expert may not be willing or able to provide or may otherwise decline to disclose the data for evaluation by the PA or SAP, even with due notice. As per the current proposal in paragraph R390.12/R5390.12, the PA or SAP will not be able to use the external expert's work regardless of the reason for the lack of disclosure, materiality of the subject matter, or consideration of whether the external expert is objective enough for the PA/SAP's purpose.
- Several of the points of information the PA or SAP is to gather from the external



expert per proposed paragraph R390.8/R5390.8 go beyond independence requirements in an audit. For example,

- R390.8/R5390.8 (i) goes beyond the Part 4A independence requirements.
- R390.8/R5390.8 (j) also seems to go beyond that of audit engagements. If the external expert has been paid by the client for a service, what does the PA do to further assess this fact?
- R390.8/R5390.8 (k) is unclear as “benefit” has not been defined.

As stated previously, we do not believe that independence attributes should be applied to the external expert. Thus, rather than requesting the external expert to provide information from the list in proposed paragraph R390.8/R5390.8, we support an approach in which the PA or SAP requests the external expert to communicate whether they are objective and provide support for their conclusion. Factors that may impact their objectivity, such as any bias, conflict of interest or the influence of others, as well as financial interests or business relationships they may have with the entity or such interests or relationships that they know or have reason to believe that their immediate family may have with the entity, would be provided to the external expert. In turn, the external expert would consider the factors and, in the event the external expert identifies a matter of significant relevance to their evaluation, they would communicate to the PA/SAP how they determined they are still objective and the rationale for that conclusion, including any safeguards they may have applied. The PA/SAP would review the response and include consideration of any significant matters in their own evaluation of the external expert’s objectivity, as the PA/SAP bears ultimate responsibility to determine whether the external expert is sufficiently objective for the PA’s/SAP’s purposes.

Given that objectivity is the stated intent, as described above, we question the purpose of asking the external expert to provide the extensive information in paragraph R390.8/R5390.8. The provisions should mirror an objectivity requirement and threshold and should not establish what is more aligned to an independence exercise.

If the Board chooses to retain the proposed additional provisions for an audit or other assurance engagement, including the list of interests, relationships and circumstances in proposed paragraph R390.8/R5390.8, it is not clear in the proposed requirements how the PA or SAP evaluates and concludes whether a response by the external expert indicating they have one or more of the listed interests or relationships would impact their objectivity.

To remain consistent with the fundamental principles of the Code and focus on objectivity, the standard would be more effective using alternative factors to evaluate objectivity, rather than the independence-related list of required disclosures proposed in paragraph R390.8/R5390.8. These factors should remain focused on assisting the PA/SAP with evaluating whether the external expert is free from conflicts of interest, not biased in carrying out their work, and not unduly influenced in order to conclude they are

objective for the purposes of the PA's/SAP's work.

Ultimately, we believe that the proposed approach could, directionally and operationally, result in it making it difficult for PAs and SAPs to be able to engage an external expert while meeting all of these requirements, which is not in the public interest.

*Period the external expert is to be objective*

Paragraphs 390.8-390.11/5390.8-5390.11 propose that the external expert provide information to allow the PA or SAP to evaluate objectivity for the period covered by the audit or assurance report and the engagement period. This period will likely be longer than the actual period the external expert is performing their work.

We believe the period of the external expert's objectivity should be the duration of their services and conclude once their work has been reviewed and accepted. At that time, we believe that practically any threats are eliminated and the need for objectivity no longer exists. A revised provision could include consideration of the conceptual framework for periods covered by the audit or assurance report and before the external expert begins work. Without limiting this period of required objectivity to the actual time the external expert is performing their work for the engagement, the provisions are not proportional to the use of an external expert's work in an audit or assurance engagement and raise additional concerns about the operability of these proposals. Adopting the proposed time period (see EM paragraph 81) could be especially problematic for a multi-year presentation of sustainability information or where a base year (for greenhouse gas, for example) is presented in addition to the current period.

*Where the client and the entity are different*

The requirement in paragraph R390.11/R5390.11 requires objectivity at the same level for the client when it is not the entity at which the external expert is performing their work. This level of requirement does not seem proportionate to the overall risks to audit or sustainability assurance quality from the PA's or SAP's use of the external expert's work in obtaining audit evidence. In fact, in some cases, the client may not even be known to the external expert. Even in the case of a group audit for instance, a component auditor firm outside the network of the group auditor only has to be independent from the group entity in relation to loans and financial interests.

*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 agree there may be threats to the PA's or SAP's compliance with the fundamental principles when using the work of an external expert. We suggest changes are needed to the following:

- Given the IESBA’s intent to apply the proposals to the use of an external expert in a non-assurance service, the example advocacy threat may need to be narrowed or clarified to not inadvertently scope in services where advocacy is not a threat to the fundamental principles. For example, a PAPP providing a litigation non-assurance service to a non-audit client where independence is not required may seem to run afoul of the circumstance in paragraph 390.14 A1 that “A professional accountant promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging” the client. This could also be the case for a professional accountant in business in relation to their employing organization in the case where the PA may use an external expert to support a professional activity performed by the PA (paragraph 290.9 A1). The scope of professional services is wide and might include services where the external expert acts as an advocate for the entity.
- In evaluating threats, the factor “The consistency of the external expert’s work, including the external expert’s conclusions or findings, with other information” (290.10/390.15/5390.15 A1) appears contradictory to the factor for evaluating objectivity which states, “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.” (290.6/390.6/5390.6 A4)
- In addressing threats, the example action to identify a different external expert would be more comprehensive if reworded to state “Seeking consultation with another external expert or using another external expert to reperform the external expert’s work.” (290.11/390.16/5390.16 A2)