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Chartered Professional Accountants of Canada
277 Wellington Street West Toronto ON CANADA M5V 3H2
T. 416 977.3222 F. 416 977.8585

Comptables professionnels agréés du Canada
277, rue Wellington Ouest Toronto (ON) CANADA M5V 3H2
T. 416 204.3222 Téléc. 416 977.8585
www.cpacanada.ca

April 30, 2024

Mr. Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 USA

Dear Mr. Siong:

Re: January 2024, Exposure Draft, Using the Work of an External Expert

I am writing on behalf of the Public Trust Committee (PTC) of the Canadian Chartered Professional Accountant profession in response to your request to comment on the Exposure Draft entitled *Using the Work of an External Expert* (“the Exposure Draft”).

Canada’s accounting profession is regulated by provincial CPA bodies and is comprised of more than 220,000 members both at home and abroad. The provincial CPA regulatory bodies are statutorily responsible for their respective codes of conduct including the independence standards. CPA Canada is a member of IFAC, represents the profession nationally and internationally, and supports the setting of accounting, auditing, assurance and sustainability standards for business, not-for-profit organizations, and government. The provincial CPA regulatory bodies and CPA Canada collaborate through the PTC to recommend policies and strategies to uphold the public’s confidence and trust in the profession.

One of the responsibilities of the PTC is to monitor international developments with respect to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics (“the Code”) and develop responses to changes on behalf of the Canadian CPA profession.

Our views

We commend the IESBA for its efforts, consistent with its commitments to evolve the Code, in developing an ethical framework, to guide Professional Accountants (PA) in public practice and in business, and Sustainability Assurance Practitioners (SAP), respectively, in evaluating whether an external expert has the necessary competence, capabilities and objectivity (CCO) for the PA or SAP to use the expert’s work for the intended purpose. We are generally supportive of the proposed principles-based approach and appreciate that the IESBA consulted with key stakeholders in 2023 through a series of global roundtables to identify how best to formulate the proposed ethical framework to guide PAs and SAPs in relation to using the work of external experts.

In preparing this response, the PTC sought the input of numerous stakeholders to effectively respond to the Exposure Draft. Feedback from these stakeholders revealed a general theme, that they agreed with the overall approach by IESBA to develop provisions that guide PAs and SAPs in applying the conceptual framework when using the work of an external expert.

Notwithstanding our overall support for these proposals and our responses to your specific questions where we have recommended clarification or additional guidance to encourage consistency in the interpretation and application of the proposals and to improve enforceability, we encourage the IESBA to also consider our comments below related to the consultation process more broadly.

Comment periods for IESBA Exposure Drafts

As outlined in our previous communications with the IESBA, the PTC would like to reemphasize that an approximate 90-day comment period is highly challenging, especially in a multi-jurisdictional country such as Canada. The challenge of responding within a relatively short time frame is even more acute in certain circumstances such as the IESBA's concurrent release of the International Ethics Standards for Sustainability Assurance Exposure Draft, which proposes to significantly expand the Code and requires considerable coordination of outreach.

As the IESBA continues its important work in encouraging and promoting global adoption of the Code, we recommend it consider whether longer public consultation periods would result in more comprehensive and considered input and lead to a more rigorous standard-setting process in the public interest. This is particularly important in jurisdictions such as Canada where the proposals must be considered in the context of local laws and regulation and may require translation for public exposure. We are concerned that an approximate 90-day comment period does not allow sufficient time to coordinate and prioritize the resources required for robust consultation in all jurisdictions and request again, that the IESBA increase the length of comment periods going forward.

Webinars and other resources related to IESBA Exposure Drafts

Our committees find the IESBA's webinars to be extremely helpful in understanding IESBA's process in developing its proposals in the public interest, as well as the substance and implications of the proposals to the Code itself. We encourage the IESBA to continue announcing webinar dates with the release of the relevant exposure draft. This greatly assists our committees in understanding the proposals and providing feedback to our consultation processes.

Our responses to your questions

Please find below our responses to the requested matters for input from Respondents as outlined in the Explanatory Memorandum's Guide for Respondents.

Glossary

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

The PTC generally supports the proposals set out in the glossary concerning the new and revised

definitions. However, stakeholders identified that the definition of “*External Expert*” for audit engagements includes “...*obtaining sufficient appropriate audit evidence*” whereas the assurance engagements definition includes only “...*obtaining sufficient appropriate evidence*”. The PTC observes that this approach seems inconsistent and recommends that the definition of assurance engagements include “*obtaining sufficient appropriate assurance evidence*”. Alternatively, the PTC thinks that it would be helpful for IESBA to clarify why “*audit*” is added to the definition for audit engagements, but “*assurance*” is not required for the definition of an assurance engagement.

Furthermore, the PTC observes that the definition of External Expert does not sufficiently distinguish an external expert from an expert engaged by the firm who can directly influence the outcome of an audit/assurance engagement (the latter is part of the Audit /Assurance Team). Without highlighting in the definition that some external experts might be considered members of the engagement team, practitioners might assume all externally engaged experts fall within the external expert definition and apply less stringent independence rules. The extant code and proposed changes also do not sufficiently explain the term “*can directly influence the outcome*”. The PTC appreciated the examples in ET-GA Q&As and the flowcharts in Appendix 1 and paragraphs 46 to 53 in the Explanatory Memorandum which assisted with understanding the difference between an audit team member and an external expert. The PTC recommends that the IESBA includes as application material some of the explanation provided in the Explanatory Memorandum and examples to illustrate the difference between an external expert and an audit/assurance team member and as non-authoritative guidance, the flowcharts in Appendix 1.

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?

The PTC supports the proposed approach for evaluating an external expert’s competence, capabilities and objectivity. The PTC found the examples of sources for obtaining information about the external expert’s CCO helpful but recommend minor amendments for clarification. The PTC is of the view that an additional bullet should be added for “*Any disciplinary actions published by a regulatory body or agency relating to the external expert*” in paragraphs 290.6 A7 and 390.6 A6. This addition will complement other sources already included for example “*Inquiry of the external expert’s professional body or industry association*” and “*Published records, such as legal proceedings involving the external expert*”.

The PTC observes that it may not be immediately clear for non-professional accountants, why the following firm elements are relevant sources of information regarding an individual external expert’s competence, capabilities and objectivity:

- “*The internal controls, policies, and procedures of the professional accountant’s employing organization*” (290.6 A7)
- “*The system of quality management of the professional accountant’s firm*” (390.6 A6)
- “*The system of quality management of the sustainability assurance practitioner’s*

firm” (5390.6 A6)

The PTC considers that clarification of the relevance of this source of information about an external expert’s competence, capabilities and objectivity may be helpful in the IESBA Code and recommends that IESBA consider the information in ISA 620 (see paragraph A15), for additional application material to provide clarity to proposed paragraphs 290.6 A7, 390.6 A6 and 5390.6 A6.

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 PTC is in general agreement with the Code prohibiting the PA or SAP from using an external expert’s work if their assessment determines the expert is not competent, capable or objective. However, because the PA or SAP can undertake the CCO assessment of the external expert after the engagement has started, there is a risk relating to how this will be performed and the understanding by both parties of what information will be required to complete it. The PTC recommends that IESBA provide additional application material in paragraphs 290.5 A1, 390.5 A1 and 5390.5 A1 to emphasize the importance of discussing the **specific** information that the external expert will provide to complete the CCO when agreeing to the terms of an engagement. For example, by adding a bullet to proposed paragraph 290.5 A1 to include “*The information that the professional accountant expects the external expert to provide to complete the CCO assessment*”.

Proposed paragraphs R390.5 (b) and R5390.5 (b) require that, in the context of an audit, sustainability or other assurance engagement, the PA or SAP, in the terms of engagement, agree on the provision of information needed for the evaluation of the external expert’s CCO. However, the PTC thinks that proposed paragraphs 390.5 A1 and 5390.5 A1 would also benefit from additional bullets, to emphasize the importance of discussing the **specific** information required and propose adding “*The specific information the PA (or SAP) will require from the external expert to complete the CCO assessment.*” This might help to improve understanding of the factors relevant to the CCO in the early stages of an engagement and reduce the risk that an external expert will be engaged that will not satisfactorily pass the CCO evaluation. Alternatively, the IESBA could consider adding additional guidance in the non-authoritative guidance documents, education materials or FAQs that accompany the roll-out of sections 290, 390 and 5390.

In addition, the PTC appreciated the application material in paragraphs 290.12 A2, 390.17 A2 and 5390.17 A2 regarding evaluating the competence of an external expert in an emerging field or area, however, proposes that additional non-authoritative guidance should be provided by IESBA on evaluating the level of competence of an external expert in an emerging area/ industry versus a mature area/ industry.

The PTC believes that the alignment between the proposals in this Exposure Draft and ISA 620 is critical, and therefore appreciates the ongoing collaboration between IESBA and the IAASB on harmonization as the proposals are finalized.

Finally, the PTC identified that in paragraphs 290.6 A4, 390.6 A4 and 5390.6 A4 the phrase “...knows or is aware of...” is included, which is different than “...knows or should know...” or “...knows or has reason to believe...” used elsewhere in the current Code. The PTC thinks that

clarification of the IESBA's intent in using different terminology in these paragraphs would be helpful.

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 PTC agrees with the IESBA's proposals and believes that the additional provisions related to evaluating an external expert's objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts. The additional requirements in paragraphs R390.8 to R390.11 and R5390.8 to R5390.11, regarding specific interests, relationships, and circumstances in the evaluation of the external expert's objectivity for audit and assurance engagements, are very comprehensive and align with the independence requirements in Parts 4A and 4B of the Code.

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?**

Overall, the PTC supports the provisions that guide PAs and SAPs in applying the conceptual framework when using the work of an external expert. However, the PTC notes that the example of an advocacy threat in paragraphs 290.9 A1(b), 390.14 A1(b) and 5390.14 A1(b) suggests that an external expert who has a known bias towards conclusions potentially advantaging or disadvantaging the client could be engaged. It is not clear how this external expert would have been deemed to have the necessary objectivity for the CCO assessment, based on the evaluation requirements for objectivity (see paragraphs 290.6 A4, 390.6 A4, and 5390.6 A4). Therefore, the PTC recommends that the IESBA remove this example in the final revisions.

Other General Comments

The PTC would like to provide these additional comments for IESBA's consideration:

Experts from specific fields or other jurisdictions

The PTC found the discussion in the Explanatory Memorandum, regarding what a PA and SAP should consider when it is determined that there are no external experts available in a particular field or jurisdiction, to be helpful. The PTC recommends that this should be included in any non-authoritative material, education materials or FAQs, that accompany the roll-out of sections 290, 390 and 5390.

Documentation

Finally, in paragraphs 290.16 A1, 390.21 A1 and 5390.21 A1, the professional accountant is “encouraged” to document the results of discussions, the steps taken to evaluate the CCO and the significant threats identified in using the external experts work and the actions taken to address these threats. Based on the importance of this documentation, the PTC believes that this should be stated as a requirement rather than application material which encourages documentation by the sustainability practitioner.

We thank you for the opportunity to comment on this Exposure Draft and we appreciate that further revisions to these proposals may result through the feedback provided by stakeholders.

Yours truly,

A handwritten signature in blue ink, appearing to read "Janet Gillies". The signature is fluid and cursive, with a large initial "J" and a long, sweeping underline.

Janet Gillies, CPA, CA
Chair, Public Trust Committee