



4 May 2024

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Re: Comment on the IESBA Exposure Draft: Using the Work of an External Expert

The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) is pleased to provide its comments on the International Ethics Standards Board for Accountants' Exposure Draft on 'Using the Work of an External Expert'.

AFAANZ is the peak regional academic accounting and finance association and counts among its membership the region's leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ's Auditing and Assurance Special Interest Group, formed to give a voice on standard setting deliberations to the academic research literature.

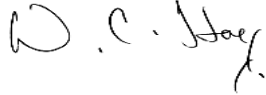
The views expressed in the comments that follow are those of the undersigned Committee members and do not necessarily reflect the official position of AFAANZ. While the views expressed represent a consensus view of the Committee, they do not necessarily represent the views of each individual member.

If you have any questions on our submission, please contact either of the Committee Co-Chairs (Noel Harding – n.harding@unsw.edu.au or David Hay – d.hay@auckland.ac.nz).

Yours Sincerely*,



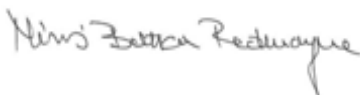
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* All signed in their capacity as members of the AFAANZ Auditing and Assurance Standards Committee.

**Auditing and Assurance Standards Committee of
Accounting and Finance Association of Australia and New
Zealand
(AFAANZ)**

**Comments on the International Ethics Standards Board for Accountants’
(IESBA’s) Exposure Draft on ‘Using the Work of an External Expert’**

We begin by commending the International Ethics Standards Board for Accountants (IESBA) for their work on revising the International Code of Ethics for Professional Accountants (including International Independence Standards) (The Code) as it relates to Professional Accountant’s (PA’s) and Sustainability Assurance Practitioner’s (SAP’s) use of external experts.

Given the increasing breadth of the PA’s and SAP’s work, there is an increasing need to draw on the work of experts (e.g., Boritz et al. 2020) and an increasing possibility that inappropriate reliance on that work by the PA or SAP may threaten the PA’s or SAP’s compliance with the fundamental principles of The Code. Appropriate evaluation of the work of the external expert helps to minimise that threat.

Overall, we believe that the proposals, when considered collectively, will enhance the PA’s and SAP’s evaluation of an external expert’s work, but that there remain opportunities for the IESBA to make further improvements to The Code in this area.

We limit our comments to the questions for which we are of the view that the extant research literature may meaningfully contribute. Specifically, we comment on Questions 1, 2 and 4.

In summary, we feel that the IESBA;

- i. should retain reference to experience when speaking of expertise (see our response to Question 1),
- ii. should cross reference discussions on evaluating the external expert’s competence, capabilities and objectivity to material in The Code on threats to compliance with fundamental principles from conscious and unconscious bias (see our response to Question 2), and
- iii. clarify the expectations as they relate to the evaluation of an external expert’s objectivity for audit and other assurance engagements (see our response to Question 3),

We expand on these points below.

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

We do not support the proposed new and revised definitions of expertise. With reference to a long tradition of academic research examining expert performance, we are of the strong view that reference to experience should be retained in references to expertise. Removal of reference to experience risks inaccurate assessments by the professional

accountant and sustainability assurance practitioner of an expert's competence and capabilities. We believe that it is in the public interest to; 1. Include experience in the proposed new definition of expertise and, 2. With reference to the revised definition of external expert, refer to the components of expertise (i.e., skills, knowledge and experience) rather than the collective term of expertise.

Research, predominately in auditing but also in other accounting disciplines, presents a comprehensive account of expertise (see Bédard 1989; Libby and Luft 1993; Nelson and Tan 2005; Mala and Chand 2015 for reviews). Although the majority of research in this area has been undertaken some time ago, the research findings are still applicable and should not be interpreted as lacking contemporary relevance.

Research in accounting clearly shows that expertise is a function of knowledge and ability (e.g., Bonner and Lewis 1990), the latter of which is analogous to skills. We therefore understand the IESBA's arguments around the exclusion of experience as research highlights that experience is an antecedent of knowledge (e.g., Frederick 1991). There is, however, a fundamental concern with this argument.

While research highlights that the amount of knowledge is an important determinant of expertise, it also highlights that the structure of that knowledge is critical (e.g., Weber 1980; Choo and Trotman 1991; Tubbs 1992; Harding 2010). An expert's knowledge is more effectively organised (e.g., Larkin et al. 1980; Norman et al. 1994). Professional accountants (and sustainability assurance practitioners) with the same level of knowledge (and ability) can perform differently depending on the task (e.g., Choo 1989; Ramsay 1994; Nelson et al. 1995; Harding and Trotman 1999). Experience is a critical determinant of the structure with which knowledge is organised (Gibbins 1984; Bedard and Chi 1993).

Although it may be argued, as the IESBA does in the Explanatory Memorandum, that a consideration of knowledge implicitly includes a consideration of experience necessary to attain the knowledge, we believe that this focusses attention on the volume of knowledge at the expense of the structure / organisation of that knowledge. Retaining reference to experience, and potentially elaborating on how experience speaks to the organisation and not just the amount of knowledge, facilitates a more comprehensive understanding of expertise and a more precise assessment of an expert's competence and capability.

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 believe that there are opportunities for the IESBA to further enhance the approach regarding the evaluation of an external expert's competence, capability and objectivity. We encourage the IESBA to retain reference to experience in the definition of expert (see comments on Question 1) as this will appropriately extend the breadth of the evaluation to cover the nature of the knowledge and skills underlying the expert's competence and capability. We further encourage the IESBA to consider cross referencing application material relating to paragraph R390.6 to biases that may impact the exercise of professional judgment when evaluating the external expert's competence, capabilities and objectivity (i.e., paragraph 120.12 A1 to paragraph 120.12 A3 in Part 1 of The Code). We are particularly concerned with the potential for overconfidence bias to negatively intrude on these judgments. We support the increased attention to capabilities.

As noted in our response to Question 1, we are strongly of the view that reference to experience when discussing expertise is necessary and will appropriately expand the breadth with which an expert's competence and capability is evaluated. This will further allow the listed factors in paragraph 390.6 A2, which explicitly and implicitly refer to experience, to realise their full potential.

In addition, academic research provides an insight into the effectiveness and accuracy with which accountants (predominantly auditors) assess the competence of others (e.g., Kennedy and Peecher 1997; Jamal and Tan 2001; Tan and Jamal 2001, Harding and Trotman 2009; Han et al. 2011). A consistent finding of this research is that auditors are inaccurate and overconfident in their assessments of another's competence. An overconfident assessment of another's competence and capability represents a threat to the quality of the professional accountant's work towards which the expert is contributing. Reference to the potential biases threatening the effective exercise of professional judgment, and actions that may mitigate the effect of this bias (i.e., paragraph 120.12 A1 to 120.12 A3) will highlight the need for the professional accountant to be mindful of overconfidence bias (and other potentially deleterious biases).

We support the coverage of capabilities in paragraph 390.6 A3 in that research highlights the deleterious consequences of depletion and pressures on the professional accountant's ability to exercise cognitive self-control (e.g., Baumeister et al. 1998) in the application of an expert's knowledge and skills (see Hurley 2015 for a review). Considering the external expert's capability / capacity to complete the work is a necessary and important consideration for the professional accountant and sustainability assurance practitioner.

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 experts' objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts? If not, what other considerations would help address the heightened public interest expectations?

We do not agree that the additional provisions relating to evaluating an external expert's objectivity when their work contributes to an audit or other assurance engagement are appropriate. We encourage the IESBA to be clear on the objectives for the additional rigour and to ensure that the provisions support these objectives. At present, it is unclear whether the circumstances outlined in paragraph R390.8 are meant to elevate the level of objectivity expected of an external expert before their work can be used in an audit or other assurance engagement, or elevate the degree of accountability and confidence that the auditor or assurance practitioner needs to have in their judgment by requiring more evidence to be collected. To the extent that the goal of paragraph R390.8 is to elevate the necessary level of objectivity beyond that expected for work other than that contributing audit and assurance engagements, then we encourage the IESBA to be clear that these speak to a higher level of objectivity. To the extent that the IESBA is not codifying different levels of objectivity (i.e., codifying the same minimum bar for all work the external expert contributes towards), then we similarly encourage the IESBA to be clear on this and rather than have a separate section on additional circumstances, incorporate such a discussion into paragraph 390.6A4 and require the auditor to reach a greater level of confidence in the external experts work when it contributes to audit and other assurance engagements.

Objectivity is a critical characteristic of a professional accountant's work and positively contributes to societal value (e.g., Liang and Zhang 2019). The concept of objectivity has been the subject of discussion in the accounting academic literature for well over 50 years (e.g., Chambers 1964; Burke 1964; Wagner 1965). Following philosophical perspectives (e.g., Moser 1993), accounting researchers argue that there are levels or degrees of objectivity (e.g., Wojdak 1970; McKernan 2007), and research highlights that accountants vary in the level of objectivity they exhibit (e.g., Ponemon 1995; Bamber and Iyer 2007, Svanberg et al. 2017; Suh et al. 2021). The IESBA speaks of objectivity as exercising professional or business judgment without being compromised by bias, conflict of interest, or undue influence of or undue reliance on individuals, organisations, technology or other factors (paragraph R112.1). Perfect objectivity is unattainable. The question to which the professional accountant or sustainability assurance practitioner must apply their judgment towards is the level at which the expert's objectivity is sufficient to permit the contribution of their work. Given that objectivity exists on a continuum, and the heightened public interest expectations when external experts contribute to audit and other assurance engagements, we have no objection to the IESBA elevating the minimum level of objectivity before which the external expert's work can contribute to these engagements. However, it is unclear whether this is the intention.

It is unclear whether the additional provisions in paragraph R390.8, which essentially speak to the collection of evidence on particular interests, relationships and circumstances that may compromise objectivity, are meant to elevate the minimum level of objectivity for external experts contributing to audit and other assurance work (e.g., a direct financial interest would be acceptable for a non-audit engagement but unacceptable for an audit or other assurance engagement) or that the same level of objectivity is being referred to, but that the auditor / assurance practitioner is expected to have greater confidence in the evaluation by collecting more information / evidence (e.g., direct financial interests are never acceptable but an auditor should build greater confidence in their judgment by collecting specific evidence). Both aims would be consistent with the heightened public interest expectations concerning external experts contributing to audit and other assurance engagements. However, the current lack of clarity will add unnecessary confusion for professional accountants, external experts, and users of the professional accountant's work. The complexities inherent in evaluations of independence (e.g., Gramling et al. 2010; Tepalagul and Lin 2015; Church et al. 2015) are likely also reflected in evaluations of objectivity (c.f., Svanberg et al. 2019). Furthermore, an additional layer of complexity is added when objectivity is considered across a range of subject matter expertise and different relationships with the client (Boritz et al. 2020). We believe it to be in the public interest to clarify expectations in response to the identified heightened public interest focus in order to minimise any misunderstanding.

To the extent that the objective of the IESBA is to elevate the minimum level of objectivity before an external expert's work can contribute to audit and other assurance engagements, then we encourage the IESBA to be clear that this is the case and prepare more principles-based provisions highlighting the expected differences in objectivity (rather than relying on examples to make this point). To the extent that the objective is to increase the confidence and accountability of the auditor and assurance practitioner for their judgment that the consistent minimum level of objectivity has been achieved, then we encourage the IESBA to clarify this and to clearly state the objective of the additional work expected of the auditor/assurance practitioner.

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