



RSM International Limited

50 Cannon Street
London
EC4N 6JJ
United Kingdom
T +44 207 601 1080
rsm.global

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Mr Ken Siong
International Ethics Standards Board for
Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Mr Siong,

IESBA Exposure Draft – Using the Work of an External Expert

RSM International Limited, a worldwide network of independent audit, tax, and consulting services firms focused on serving the middle market, appreciates the opportunity to comment on the IESBA's Exposure Draft – “Using the Work of an External Expert” (the “ED”).

We are supportive of the IESBA introducing an ethical framework to guide professional accountants and sustainability assurance practitioners, in evaluating whether an external expert has the necessary competence, capabilities, and objectivity (“CCO”) to use that expert’s work for the intended purposes. We also encourage the IESBA to work closely and collaboratively with the IAASB to ensure that the assurance standards address these performance requirements in a cohesive manner.

However, there are areas where we have specific comments, suggested amendments and additions which we have set out by responding to the specific questions below. In providing comments, we have referred to proposed section 390. The principles behind our comments and the suggested changes also apply to section 5390 and, where relevant, section 290 unless otherwise specified.

Language recommended for deletion is ~~struck through~~. Language recommended for addition is underlined.

If you have any questions relating to our response, please contact me at peter.oastler@rsm.global.

Yours sincerely,

Peter Oastler

Peter Oastler
Global Ethics and Independence Leader
RSM International

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Specific Comments

Glossary

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

Yes, we support the proposals set out in the glossary concerning the proposed new and revised definitions.

Evaluation of CCO for all Professional Services and Activities

2. Do respondents support the approach regarding evaluating an external expert's competence, capabilities and objectivity? Are there other considerations that should be incorporated in the evaluation of CCO specific to PAIBs, PAPPs and SAPs? See Section V.

We support the approach regarding evaluating an external expert's competence, capabilities and objectivity but have the following suggestions and comments that we believe would enhance clarity and assist implementation:

- a. The proposed requirement R390.6 states: *"The professional accountant shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose"*.

This is consistent with International Standard on Auditing ("ISA") 620, *Using the Work of an Auditor's Expert*, paragraph 9 as it recognises that the assessment of whether or not an external expert is competent, capable and objective needs to be completed with respect to the particular work that the individual is being engaged to perform. For example, if an external expert provides a service to an entity where they hold a financial interest, the assessment of objectivity would differ depending on whether the expert's service contributed to an audit/assurance engagement compared to a non-assurance service.

We note that paragraph 390.15 A1 includes: *"The nature of the professional service for which the external expert's work is intended to be used"* as a factor to consider in evaluating the threats to compliance with the fundamental principles arising from using the work of an external expert. However, this is not included in the subsection of 390 on evaluating the external expert's CCO. We, therefore, recommend revising paragraph 390.6 A4 within the subsection, *"Evaluating the External Expert's Competence, Capabilities, and Objectivity"*, as follows as one of the factors in evaluating the objectivity of the external expert:

390.6 A4 Factors that are relevant in evaluating the objectivity of the external expert include:

- ...
- The type of service for which the external expert is providing assistance.

- b. We believe that the application guidance in subsection, *"Potential Threats Arising from Using the Work of an External Expert"* (paragraphs 390.14 A1 – 390.16 A2 of the ED), are needed in order for the professional accountant ("PA")/sustainability assurance provider ("SAP") to assess whether the external expert has the necessary CCO to perform the relevant activities and should be a part of the subsection, *"Evaluating the External Expert's Competence, Capabilities and Objectivity."* However, as currently drafted, this has been positioned in its own subsection, the first paragraph of which 390.13 A1 states:

"Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a professional accountant has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose."

It might be inferred from this that the PA/SAP only performs the threats and safeguards analysis if they have confirmed that the external expert has the necessary CCO to perform the relevant activities. We therefore recommend that application guidance in the subsection, *"Potential Threats Arising from Using the Work of an External Expert"* (paragraphs 390.13 A1 – 390.16 A2) is moved as a subsection within the subsection,

“Evaluating the External Expert’s Competence, Capabilities and Objectivity”, and before paragraph R390.12 as follows:

Evaluating the External Expert’s Competence, Capabilities, and Objectivity

...

All Professional Services

R390.12 ~~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.~~

Potential Threats Arising from Using the Work of an External Expert *Potential Threats Arising from Using the Work of an External Expert*

All Professional Services

390.13~~2~~ A1 Threats to compliance ...

Identifying Threats

390.14~~3~~ A1 Examples of facts and circumstances ...

Evaluating Threats

390.15~~4~~ A1 Factors that are relevant ...

Addressing Threats

390.16~~5~~ A1 An example of an action ...

390.16~~5~~ A2 Examples of actions ...

All Professional Services

R390.1216 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.

- c. The proposed section 390 is incremental to the requirements in ISA 620. Paragraph A20 of ISA 620 states: “A20. When evaluating the objectivity of an auditor’s external expert, it may be relevant to:
 - (a) Inquire of the entity about any known interests or relationships that the entity has with the auditor’s external expert that may affect that expert’s objectivity.
 - (b) Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level.

Interests and relationships that it may be relevant to discuss with the auditor's expert include:

- *Financial interests.*
- *Business and personal relationships.*
- *Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.*

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor's external expert about any interests or relationships with the entity of which that expert is aware."

We also note that the exposure draft of International Standard on Sustainability Assurance ("ISSA") 5000, *General Requirements for Sustainability Assurance Engagements*, issued in August 2023 by the International Auditing and Assurance Standards Board ("IAASB") does not address these incremental requirements and reflects the language of ISA 620 mentioned above in proposed paragraph A113.

Although we support the incremental requirements proposed by the IESBA, subject to our comments included in this letter, we acknowledge that there are jurisdictions that may use the IAASB standards but have not adopted the *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code of Ethics"). Accordingly, we believe that the IESBA should work with the IAASB to encourage that either:

- (1) any incremental requirements for assessing the CCO of an external expert be included in each of the IAASB's suite of standards (i.e., ISA 620, International Standard for Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements*, International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, International Standard on Related Services 4000, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*, and ISSA 5000), or
 - (2) the IAASB reference to "relevant ethical standards, such as the IESBA Code of Ethics" into each of its suite of standards and that these changes become effective concurrently.
- d. The proposed section 290.6 A5 (which applies to professional accountants in business ("PAIBs")) states: *"Other interests that might impact the level of threat to an external expert's objectivity include significant financial interests such as those arising from compensation, fees or incentive arrangements linked to financial and non-financial information and decision making. "*

It is unclear why this would not also apply for external experts providing services to support a client engagement of a PAPP or a sustainability assurance practitioner ("SAP"), and we recommend that this application guidance is also included in sections 390 and 5390 respectively.

3. Do respondents agree that if an external expert is not competent, capable or objective, the Code should prohibit the PA or SAP from using their work? See paragraphs 67 to 74.

We agree with the principle behind the requirement but recommend that R390.12 is amended in line with our response to question 2 above where we noted that the determination of CCO is dependent on the purpose for which the external expert is being engaged. We recommend that the wording of the requirements in proposed paragraph R390.12(b) is updated to be consistent with paragraph R390.6 as follows:

R390.12

...

- (b) The accountant determines that the external expert is ~~not competent, capable or objective.~~ does not have the competence, capability or objectivity to perform the services for the accountant's purpose.

Evaluation of CCO for Audit or Other Assurance Engagements

- 4. In the context of an audit or other assurance (including sustainability assurance) engagement, do respondents agree that the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts? If not, what other considerations would help to address the heightened public interest expectations? See Section (V)(A).**

We agree that it is appropriate to have a different approach for the use of external experts to support audit and assurance engagements compared with the use of external experts for non-assurance engagements. However, we do not agree that the proposed standard provides a proportionate level of rigour. Rather, we believe that the requirements as drafted go further than is necessary to obtain assurance relating to the external expert's objectivity as outlined as follows.

Paragraphs 22-26 of the Explanatory Memorandum ("EM") set out the IESBA's deliberations as to whether external experts used to support an audit or assurance engagement are required to be independent. In paragraph 25 of the EM, the IESBA concludes that *"the evaluation of external experts in an audit or assurance engagement be performed through the lens of objectivity."*

The fundamental principle of objectivity is explained in subsection 112 of the IESBA Code of Ethics as follows: *"A professional accountant shall comply with the principle of objectivity, which requires an accountant to exercise professional or business judgement without being compromised by*

- (a) Bias*
- (b) Conflict of interest*
- (c) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors*

A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgement regarding that activity."

Objectivity is therefore a state of mind of the individual. This contrasts with independence which also comprises independence in appearance. Section 400.5 (b) defines independence in appearance as *"the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit team member's, integrity, objectivity or professional skepticism has been compromised"*.

If the external expert is not aware of the existence of relationships and interests their objectivity cannot be impaired.

Proposed paragraphs R390.12(a) of the ED requires the following:

"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, capability and objectivity."

Consequently, if the external expert is unaware of specific relationships, such as those listed in paragraph R390.8 of the ED (for example, financial interests held by a spouse or spousal equivalent who has independent financial affairs), then the external expert could not be used. This seems unnecessary because interests for which the external expert is not aware do not impact the external expert's objectivity. This could lead to an inability to identify an appropriate external expert to perform the role which could then have an impact on the quality of that audit/assurance engagement.

We note that paragraph R390.8 of the ED requires the PA to *"request the external expert to provide... information"* about 13 different items that may impact an external expert's objectivity. It is unclear to what extent the IESBA intended the PA to obtain information (or the external expert to provide information) for each of the 13 different items. We recommend that the IESBA clarify their intent regarding the extent of information the PA

should request from the external expert. Paragraph 9 of ISA 620 requires that “the evaluation of objectivity shall include inquiry regarding interests and relationships that create a threat to the expert’s objectivity,” and the related application paragraph A20 of ISA 620 states:

When evaluating the objectivity of an auditor’s external expert, it may be relevant to:

- (a) Inquire of the entity about any known interests or relationships that the entity has with the auditor’s external expert that may affect that expert’s objectivity.*
- (b) Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the auditor’s expert include:*
 - Financial interests.*
 - Business and personal relationships.*
 - Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.*

In some cases, it may also be appropriate for the auditor to obtain a written representation from the auditor’s external expert about any interests or relationships with the entity of which that expert is aware.

An audit is the highest level of independent professional assurance. Accordingly, we believe that the extent of procedures performed should not exceed that of an audit. We therefore recommend revising the lead-in to paragraph R390.8 of the ED to be consistent with the approach adopted in ISA 620 as follows:

The professional accountant shall ~~request~~ inquire of the external expert to provide and, to the extent it is relevant to the engagement in assessing that expert’s objectivity, in relation to the entity of which the external expert is performing the work and with respect to the period covered by the audit or assurance report and the engagement period, request the external expert to provide information about.”

We believe that adopting this approach would achieve the proportionate level of rigor in order to assess objectivity.

It is also unclear what “benefits” refers to in paragraph R390.8(k) of the ED, which states, “Any benefits received by the external expert, their immediate family or the external expert’s employing organization from the entity.” We, therefore, recommend that “benefits” be clarified and described in the ED.

Potential Threats Arising from Using the Work of an External Expert

5. Do respondents support the provisions that guide PAs or SAPs in applying the conceptual framework when using the work of an external expert? Are there other considerations that should be included? See Section (VI)(A).

We are supportive of the provisions to guide PAs and SAPs in applying the conceptual framework when using the work of an external expert but have suggestions for how this can be enhanced. We recommend that the proposed standard should provide additional guidance on how the PA or SAP can assess an interest or relationship identified. We, therefore, recommend that:

- The proposed section includes guidance to reflect what is discussed in paragraph 60 of the Explanatory Memorandum that “*immaterial and insignificant interests, relationships or circumstances should generally not result in the PA or SAP concluding that the external expert is not objective*”; and
- The application guidance 390.13 – 390.16 and 5390.13 – 5390.16 be included in the respective sections “Evaluating the External Expert’s Competence, Capabilities and Objectivity” as discussed in question 2, response b.

- End -