



Tuesday, 30 April 2024

Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
529 5th Avenue
New York, New York 10017

Submission via [IESBA website](#)

Dear Ken,

Using the Work of an External Expert

Chartered Accountants Australia and New Zealand (**CA ANZ**) appreciates the opportunity to provide comment to the International Ethics Standards Board for Accountants (**IESBA**) on its proposals to address Using the Work of an External Expert (**the ED**). We make this submission on behalf of our members and in the public interest.

We agree with the Public Interest Oversight Board's (**PIOB**) comments and observations with respect to the growing use of experts by Professional Accountants (**PAs**). We support the PIOB's contention that it is in the public interest to assess whether the contributions made by experts should be subject to the independence requirements of the International Code of Ethics for Professional Accountants (**the Code**). We support the view that using the work of an external expert might create threats to the PAs or Sustainability Assurance Practitioner's (**SAPs**) compliance with the fundamental principles, particularly integrity, objectivity and professional competence and due care, and agree that threats arise due to the increased use of, and reliance on, external experts and the risk associated with improperly evaluating either the expert or their work.

CA ANZ is broadly supportive of the proposals that include the addition of the following three new sections to the Code and other related amendments to the Code:

- Section 390 for PAs in public practice (**PAPPs**);
- Section 290 for PAs in business (**PAIBs**); and
- Section 5390 for SAPs.

We commend the IESBA for predominately using a principles-based approach to develop the proposed sections. A principles-based approach is essential given the variety, complexity and scope of services provided by experts. Subject to our specific comments below and in Appendix A, we support the ethical framework established by these proposed new sections to assist in evaluating whether the expert has the necessary competence, capabilities, and objectivity (**CCO**) to meet the intended purpose/s of the engagement.

We agree with the IESBA's proposed approach to revise the extant definition of an external expert. However, we are concerned that the exclusion of "experience" in the proposed definition of "expertise" will result in a focus only on skills and knowledge and will be inconsistent with the definition contained in ISA 620 *Using the Work of an Auditor's Expert (ISA 620)*. Suggestions to consider are included in our response to **Question 1 in Appendix A**.

We conceptually agree with the CCO framework to evaluate the appropriateness of the external expert. However, we foresee significant practical challenges that may occur due to objectivity requirements applying to all experts regardless of the scope, importance, or materiality of their work. In sections 290, 390 and 5390 there is uncertainty regarding the period to which the proposed objectivity requirements would apply for all professional services. Please refer to our response to **Question 2 in Appendix A**.

We support prohibitions in a principles-based Code *only* where the risk/s to the public interest cannot be eliminated or reduced to an acceptable level via application of available safeguards. A complete prohibition for failing the CCO test is likely to have the effect of limiting the availability of experts which may not be in the public interest. Further discussion on this point is included in our response to **Question 3 in Appendix A**.

While it is imperative to ensure that appropriate levels of rigour are applicable to audit and assurance engagements, we are concerned that the proposed requirements at R390.8-.11/R5390.8-.11 do not achieve the right balance and hence may impede access to experts. In paragraphs 390.8-.9/5390.8-.9, the period during which the objectivity requirements are proposed to apply to the expert and their team is protracted and we consider that the approach may not be the best solution to address public interest concerns. Please refer to our response to **Question 4 in Appendix A**.

The Explanatory Memorandum (**the EM**) refers to PAs/SAPs needing to assume that experts operate within a similar ethical framework to PAs/SAPs. The Code does not require PAs/SAPs to evaluate or make assumptions about the ethical frameworks applicable to other professions. Further discussion on this point is included in our response to **Question 5 in Appendix A**.

Our responses to the specific questions for comment raised in the ED follow in **Appendix A**, and **Appendix B** provides more information about Chartered Accountants Australia and New Zealand (**CA ANZ**). Should you have any queries about the matters raised in this submission, or wish to discuss them in further detail, please contact Josephine Haste FCA, Manager Professional Standards by email via Josephine.Haste@charteredaccountantsanz.com.

Sincerely

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Appendix A

Request for Specific Comments

Glossary

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

We broadly agree with the IESBA's proposed approach to revise the extant definition of an external expert. We support the proposal to explicitly refer to external experts who are engaged by an employing organisation, firm, or SAP to differentiate between experts who might be internal to the firm or employing organisation. The flowcharts provided at Appendix 1 of the EM are most useful in understanding when, and to whom, the proposed provisions will apply. We recommend that these flowcharts be included in non-authoritative material (**NAM**).

However, we are concerned that by excluding experience, and only referring to skills and knowledge, the proposed definition of 'expertise' will be inconsistent with the definition contained in ISA 620.

Further, whilst the attainment of skills and knowledge may deem a professional competent, relevant experience is necessary to be considered an 'expert' in a field. It is often the experience component that experts refer to when promoting their services, as experience engenders trust in, and credibility of, the expert. We recognise that experts in emerging fields, such as sustainability, may have limited experience. For these reasons we strongly encourage the IESBA to reinstate experience in the Glossary as an element of expertise. The provision of application material (**AM**) or other NAM would be useful to explain that experience in a field may not always be practicable and, under certain circumstances, a lack of specific expertise does not necessarily preclude someone from being considered an expert.

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 conceptually agree with the Code including a requirement to evaluate the appropriateness of the external expert using the CCO framework. We note, however, that competency is mostly a function of practise and experience which heightens our concerns regarding the exclusion of "experience" in the definition of an expert / expertise as discussed in our response to question 1 above.

Please find below considerations for the IESBA regarding the evaluation of CCO.

- The guidance material included in the EM is useful for understanding the purpose of the CCO test. We recommend that similar content be provided as NAM or included as AM in proposed paragraphs R390.6-.12 and R5390.6-.12.
- To improve the flow of content applicable to 'all professional services', we recommend including a reference to proposed paragraphs R390.12/R5390.12 following 390.6 A6/R5390.6 A6 respectively.
- We are concerned about potential practical challenges that may occur due to the CCO requirements applying to all experts regardless of the scope, importance, complexity or materiality of their work. Where the number of experts available is less than the demand for their services, the ability to meet the objectivity test may be difficult, particularly in smaller market economies. This may cause a detriment to the public interest where an expert cannot complete an engagement, or no suitable expert can be identified.
- We are concerned with the appropriateness of the IESBA's suggested solution of "using an expert from another jurisdiction (or) consulting with the appropriate regulatory or professional body (to) ascertain the proper next steps".¹ We highlight that CA ANZ is not intending to offer this as a service to members, so this proposal may not be able to be operationalised in Australia or New Zealand.
- In proposed section 290 there is no indication as to the period for which objectivity applies when a PAIB engages an expert. For example, if an objective expert was to take employment with an entity that was previously subject to their expert assessment or opinion after submission of the expert's report but prior to the completion of an engagement, it is not clear whether they would continue to be considered objective.

¹ Paragraph 70 of IESBA's Explanatory Memorandum on *Using the Work of an Expert*.

- In proposed sections 390 and 5390 no guidance is provided with respect to the timeframes applicable to objectivity for 'all professional services'. We recommend that the period for which the expert must remain objective should begin when the PA/SAP engages the expert and end when the expert signs/provides the engagement output to the PA/SAP.

The development of appropriate transitional provisions will be essential, particularly in emerging services, such as sustainability. We recommend that transitional provisions be included that enable the PAIB/PAPP/SAP to continue until completion, any engagement with an expert for which the work has already commenced under the extant provisions of the Code and which precedes the effective date of the revised Code. Additionally, we recommend that any transitional provisions recognise that the availability of experts may be impacted by both the emergence of the expert's field of expertise as well as the CCO requirements of these proposed amendments.

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 do not support the proposed prohibition. We support paragraph R120.3 of the Code which requires the PA to apply the Conceptual Framework (CF) to the fundamental principles set out in Section 110. Prohibitions within a principles-based Code should be used with caution and only to address significant public interest risk/s where safeguards are not available. Where there are no safeguards available to reduce risks to objectivity to an acceptable level, as determined by the reasonable and informed third party test, we support the outcome of the CF which requires the PA/SAP to disengage from the professional appointment.

We believe it will be more common for PAs and SAPs to initially select an expert based on their competency and capability, an assessment of objectivity would then follow. Therefore, failing the CCO test will most likely be due to threats to objectivity, which in some cases may be able to be reduced to an acceptable level by the application of safeguards. We recommend the Code requires the PA/SAP to assess whether an otherwise, competent and capable expert can address threats to objectivity by applying safeguards.

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?**

We agree that the CCO framework provides an appropriate level of rigor for audit, assurance and sustainability assurance engagements. We do note that factors relevant in evaluating the capabilities of the external expert do not include consideration of the expert's experience. Please refer to the comments in our response to Question 1 with respect to the importance of experience as a factor that should be included in AM at proposed paragraphs 390.6 A1-A6/5390.6 A1-A6.

The proposed requirements in paragraphs R390.8-11 and R5390.8-11 appear to assess external experts through the lens of independence rather than from the conceptual basis of objectivity. The expert is not a member of the engagement, audit, or assurance team however the ED effectively creates a new limb of independence, which we are not sure is entirely appropriate.

Furthermore, we have feedback regarding the practicalities of assessing the objectivity of every individual in the expert's team. Managing the process of administering (both requesting and providing) objectivity attestations could be onerous, depending on the size of an expert's team. These practical difficulties would likely be exacerbated for Small and Medium Practices (**SMPs**) and Small and Medium-Sized Entities (**SMEs**), so SMPs and SMEs could be disproportionately impacted. Coupled with the proposed prohibition, if the CCO test cannot be met, this may further restrict the availability of experts. With respect to objectivity of the expert's team, it may be possible to address threats to objectivity through changes to the team composition.

In our view, the period over which the objectivity requirements are proposed to apply (the period covered by the audit or assurance report and the engagement period) is protracted. The longer the duration of the period for which objectivity applies the greater the potential negative impact on the availability of experts. Consistent with our response to question 2, we recommend that the period the expert must remain objective should begin when the PA/SAP engages the expert and end when the expert signs/provides the engagement output to the PA/SAP.

Proposed paragraphs R390.8/R5390.8 require the expert to attest to numerous independence matters. The PA/SAP is accountable for compliance with the Code and subject to monitoring and enforcement by a regulator and/or professional association. The external expert may not be subject to similar requirements. It may not be possible for the PA/SAP to assess, with sufficient confidence, the reliability of the information provided by the external expert to comply with proposed paragraphs R390.8/R5390.8. We recommend AM or NAM be included to assist with how to gain comfort on the reliability of an expert's attestation.

Overall, we have heard concerns from members that non-professional accountant practitioners (**NPAPs**) may not be familiar with certain terminology and concepts. On this basis, we question whether the requirements will be consistently applied by assurance practitioners from different backgrounds. We encourage the IESBA to provide AM to ensure consistency in application of these requirements in proposed Part 5 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?

We support the use of the CF when evaluating whether to engage the expert. We are not convinced that PAs/SAPs who rely upon the expertise of others would assume or should need to assume that these firms or experts *will* operate within a *similar* ethical framework as PAs/SAPs.²

It is reasonable to expect that the PA/SAP would make enquiries as to any standards or professional ethics applicable to the expert. However, these enquiries are unlikely to extend to an assessment of how comparable the expert's professional standards or applicable code of ethics are to the Code, as the Code does not require it. AM in extant paragraph 320.10 A1 of the Code provides that the PA should consider the reputation and expertise of the expert, the resources available to the expert, and the professional ethics standards applicable to the expert. Similar requirements and AM are found at R220.7 and 220.7 A1. These paragraphs do not require the PA to conclude that the expert operates in a similar ethical framework as PAs. While it is proposed to remove extant paragraph 320.10 A1, proposed paragraphs 390.6 A2, 290.6 A2 and 5390.6 A2 do not require the PA/SAP to make an assessment as to the comparability of ethics requirements between the those applicable to the PA/SAP and those of the expert.

² Paragraph 5 of IESBA Explanatory Memorandum on 'Using the Work of an External Expert'

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) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.**

The obligations placed on a PA / SAP by the proposed changes will require external experts to establish sophisticated and costly systems and processes, similar to those in accounting firms, to monitor independence for financial statement audit and assurance engagements. These systems will be cost prohibitive for SME experts and act as a barrier to entry to providing expert services to PAs/SAPs. The outcome would be shortages of experts and / or high fees charged by those experts who can meet the requirements of the Code. It may also discourage experts to engage with PAs. These outcomes are not in the public interest.

- **Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.**

No comment.

- **Sustainability Assurance Practitioners Other than Professional Accountants – The IESBA invites comments on the clarity, understandability and usability of the proposals from SAPs outside of the accountancy profession who perform sustainability assurance engagements addressed in the proposed Part 5 of the Code.**

No comment.

- **Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.**

No comment.

- **Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.**

No comment.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 136,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.