Use of Experts

March 2023 IESBA Meeting

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Objectives of the Session

To provide feedback on the Task Force’s preliminary consideration of:

- Matters relating to the ethical behavior (including independence) expected of experts when they are used by PAs.
- The proposed framework to guide PAs in determining whether the use of experts is appropriate.
• Increasing use of experts
  – By organizations for the preparation and presentation of financial and non-financial information.
  – Also in the context of audit and other assurance (including sustainability) engagements.

• Questions about expectations of ethical (including independence) behavior for experts
  – Raised in other projects/workstreams (tax planning, technology, strategy survey, ET-GA).

• Project progressed in tandem with the sustainability project
  – Use of experts anticipated to increase as demand for sustainability information and assurance accelerates.
  – But not limited to experts used in sustainability reporting and assurance.
Task Force Considerations

• What are experts and how are they used?
  – Increased use of experts, especially in emerging or complex fields or areas (e.g., technology, sustainability, tax, etc.).

• Public interest question re whether external experts should be independent under the Code, in particular when they are used in the context of audit or other assurance engagements.

• How can the Code respond to the changing environment and public interest perception relating to the use of experts?
  – Framework to guide PAs in determining whether the use of experts is appropriate from an ethical perspective.
  – Consideration of whether external experts should be subject to independence under the Code.
Experts and How are They Used
Types of Experts

• Experts are individuals or organizations that possess expertise (skills, knowledge and experience) in a particular field or area

• Experts in well-established fields (actuaries, engineers, fraud examiners, forensic accountants, lawyers, valuers, tax advisors…)
  – Often have some codes of ethics or conduct governing their ethical behavior and standard of professional services.
  – Generally, such codes speak to the expectations of the experts’ integrity and competence; also often deal with confidentiality and conflicts of interest.

• Experts in emerging fields (e.g., reporting of sustainability information or involvement in technologies such as crypto-related accounting)
  – Might not have professional bodies, established generally accepted practices, etc.
  – Might need a broad range of experts, e.g. reporting of sustainable development and corporate social responsibility might involve experts used by the sales, compliance, quality, human resources, health and safety, environmental and purchasing departments of an organization.
Matters for Consideration

IESBA members are asked to share any comments, questions, or reactions to the Task Force’s preliminary views.
Sufficiency of Existing Provisions
Existing Ethics Provisions in the Code and ISAs

• Determining whether the use of an expert is appropriate (S220/320)
  – The reputation and expertise of, and resources available to, the expert.
  – Whether the expert is subject to applicable professional and ethics standards.

• Additionally for audit engagements (ISA 620, ISA 500 (Revised) ED)
  – Auditor required to evaluate whether the expert has the necessary competence, capabilities and objectivity for the auditor’s purpose. Includes making inquiries regarding interests and relationships that might create a threat to that expert’s objectivity.
  – If information prepared by a management’s expert is to be used as audit evidence, auditor also required to obtain an understanding (i) of the work performed by that expert, and (ii) about how the information prepared by that expert has been used by management in the preparation of the financial statements.

• Independence is linked to the principles of objectivity and integrity (Part 4)
  – Therefore, in the context of an audit engagement, evaluation of whether the expert has the necessary objectivity is already linked to independence.
Existing Independence Provisions in the Code

- **Experts Subject to Independence Requirements in Part 4 (as revised by ET-GA)**
  - Individuals who are audit or assurance team members:
    - Those within, or engaged by, the firm who can directly influence the outcome of the engagement (e.g., those who provide consultation regarding technical or industry-specific issues, transactions or events).
    - Might include some who perform audit or other assurance procedures.
    - Might include individuals from network/non-network firms who can directly influence outcome of the engagement.
  - Excludes external experts

- **External Experts (Not Currently Subject to Independence)**
  - Individuals or organizations (outside of the firm or network firm) possessing skills, knowledge and experience in a field other than accounting or auditing.
  - Recognizing that given the specialized nature of external experts’ work, it is not appropriate to apply the same level of direction, supervision and review over them as applies to audit or assurance team members.
  - However, a framework to assess the external experts’ objectivity (including independence) would be in the public interest considering increasing use of experts.

TF preliminary view: To consider how best to address public interest perceptions re external experts
How Can the Code Respond to the Changing Environment?
Task Force Preliminary Thinking: Example Ethical Framework for All Experts

Enhanced Ethical Framework

For all experts (internal or external) to be used by an organization or firm, a PA should:

A. Consider how the expert will be used and define scope of the expert’s work

B. Identify facts and circumstances that might create threats for a PA when undertaking a professional activity incorporating the work of experts

C. Evaluate whether the use of experts is appropriate, especially around competence and objectivity (which is linked to independence)

Guidance in ISA 620 & ISA 500 (Revised) ED considered in development of framework
A. Example Definitions of Experts

- **Expert**: An individual or organization that possesses expertise in a particular field or area.

- **Expertise**: Skills, knowledge and experience in a particular field or area.

- **Internal Expert**: An expert employed by the employing organization or firm.

- **External Expert**: An expert engaged by the employing organization or firm.
  
  - *In the context of Part 4, an external expert is an expert engaged by the firm, who possesses expertise in a field or area other than accounting or assurance, to obtain sufficient appropriate evidence.*
  
  - *In the context of Part 4, a management expert is an expert possessing expertise in a field or area other than accounting or assurance whose work is used by the client, for example, to prepare financial statements.*

**Extant definition of external expert:**

An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
Experts can be involved in many fields or areas. More developed fields or areas of expertise might already have standards governing an expert’s ethical behavior and standard of professional services (e.g., actuaries, engineers, fraud examiners, forensic accountants, lawyers, valuers, tax advisors, etc.)

Generally, distinguishing between the PA’s expertise in accounting versus the expert’s expertise in a specialized area of accounting is straightforward

- Not an expert: Individual with expertise in applying methods of accounting for deferred income tax, as it is an accounting matter, and a PA is expected to possess accounting expertise.
- Expert: Individual with expertise in taxation law, as it constitutes legal expertise.

However, in some cases, it will be a matter of professional judgment especially if involving an emerging area of accounting expertise

- E.g., reporting of sustainability-related information, or dealing with accounting relating to specific technologies such as crypto-related accounting.

Applicable professional rules and standards regarding education and competency requirements for PAs might assist in exercising that judgment
## B. Examples of Possible Threats When a PA Uses Experts

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<th><strong>Self-interest</strong></th>
<th><strong>Self-review</strong></th>
<th><strong>Advocacy</strong></th>
<th><strong>Familiarity</strong></th>
<th><strong>Intimidation</strong></th>
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<td>• Has insufficient understanding of the expert’s work (Competence)</td>
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<td>• Seeks to hire an expert whose work will be favorable for the PA (Integrity, Objectivity, Professional Behavior)</td>
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<td>• Holds a financial interest in, or has a loan or guarantee from, or has a business relationship with, the external organization which produces the work of experts (Objectivity)</td>
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<td>• Provides subjective and complex judgements on data for the experts’ use (Objectivity)</td>
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<td>• Scopes the expert deliberately as the expert’s previous work appears to support the desired outcome for the PA's organization (Integrity, Objectivity, Professional Behavior)</td>
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<td>• Has long association with the expert (Objectivity)</td>
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<td>• Feels pressure to accept the expert’s work due to the time or cost spent on it (Integrity, Objectivity, Competence, Professional Behavior)</td>
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<td>• Feels pressure to defer to the expert’s opinion due to the experts’ perceived authority (Integrity, Objectivity, Competence, Professional Behavior)</td>
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C. Examples of Evaluation Process

Why does the PA need the expert?
- Insufficient knowledge, skills and experience
- Insufficient time or resources

How should the “right” expert be identified?
- Credentials, reputation and experience
- Resources available
- Applicability of professional, including ethics, standards
- NOCLAR
- Conflicts of Interests
- Fees and business relationships
- Interests, loans and guarantees, relationships and circumstances

How will the expert be engaged and managed?
- Scoping of engagement
- PA’s accessibility to all relevant information and inputs
- Oversight and controls relating to the use of expert (incl. confidentiality, work papers)
- Communication with appropriate levels of management/TCWG

What is the reliability of the expert’s work?
- Criticality of the expert’s work to the professional activity
- Ability of PA to understand and explain the work
- Reasonableness of data inputs, assumptions, methods, findings or conclusions
- Consistency of work with other information
- Work is subject to technical performance standards or other professional or industry generally accepted practices
IESBA members are also asked to share any comments, questions, or reactions to the Task Force’s preliminary views.
How can the Code Respond to the Public Interest Question re Independence of External Experts?
Why should independence be considered for an external expert?

- Independence provisions might provide important guardrails that protect a PA’s objectivity and integrity.
- Independence:
  - Of mind, allows a PA to act with integrity, and exercise objectivity and professional skepticism.
  - In appearance, facilitates a reasonable and informed third party’s conclusion re whether a PA’s integrity, objectivity or professional skepticism has been compromised.

What are the key attributes needed from an external expert?

- PAs must currently evaluate if the external expert has the necessary competence, capabilities and objectivity under ISA 620.
- Therefore, the key attributes for an external expert to exhibit are:
  - **Objectivity and competence**.
  - Contribute to audit quality.
Should independence guardrails be extended to external experts to protect the key attributes needed from them?

- Key attribute needed from external experts is objectivity.
  - ISA 620 requires a PA to evaluate an external expert’s objectivity; but does not address other assurance engagements.
  - Competence of external experts to be addressed with enhanced ethical framework (slides 12 to 16).
- PAs performing audit and other assurance engagements must be independent.
  - Public interest question re whether independence should be extended to external experts when they are used in audit and other assurance engagements.
- Extending independence guardrails to cover use of external experts strengthens and safeguards the key attribute of objectivity needed from external experts:
  - PA to evaluate and determine if the external expert is independent of the firm’s client.
  - If the external expert is determined to be not independent, the external expert’s work cannot be used.
  - No impact on the independence of PA or its firm.
# Should Independence Guardrails be Extended to External Experts?

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<th>Pros</th>
<th>Cons</th>
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<td>• Recent environment seeing an increased reliance on wide range of different experts providing inputs into the opinion/report.</td>
<td>• Do not have the quality systems and processes and controls in place which a PA (or their firm or network firm) needs to implement.</td>
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<td>• Stakeholders have heightened expectation of the objectivity of external experts.</td>
<td>• Not under direction and supervision of the engagement partner.</td>
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<td>• Public interest arising from the reliance on the work of external experts.</td>
<td>• Independence (linked to objectivity which is already required under ISA 620) might be an overly rigorous set of requirements to apply to external experts.</td>
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<td>• Individuals (other than external experts) with direct influence on the outcome of the audit are scoped in for independence under the audit team definition, even if they are external to the firm.</td>
<td>• May limit pool of available experts (give rise to practicality issues).</td>
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**TF preliminary view:**
Yes – to consider an appropriate approach
IESBA members are asked to share any comments, questions, or reactions to the Task Force’s preliminary views.
Assessing Independence for an External Expert

For all experts
Enhanced ethical framework for a PA to identify, evaluate and monitor appropriateness of the use of an expert (slides 12-16)

Additionally for external experts used in an audit or other assurance engagements

Approach to address Independence?
Possible Approaches to Assessing Independence of External Experts

PA’s would assess whether the external expert has:

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<th>Possible Approaches</th>
<th>Pros</th>
<th>Cons</th>
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| A. Complied with Part 4A for audit and review engagements | • Meets certain stakeholder expectations  
• Conceptually simpler | • Disproportionate burden on external expert and firm which might result in a limited pool of experts available (chilling effect)  
• Cost and complexity for monitoring compliance with independence vs uplift in audit quality |
| B. Complied with ET-GA revisions for individuals out-of-network who are part of audit team (Part 4A within a limited perimeter) | • Example framework already established with ET-GA revisions | • ET-GA approach is for audit engagements, while use of external experts extends to audit and other assurance engagements  
• It is the external expert’s work which might directly influence the audit outcome rather than the external expert in a decision-making capacity that impacts the outcome of the audit |
| C. Complied with select requirements specific to the external expert used (Introduce differentiated and scalable framework) | • Focused and scalable independence requirements for the use of certain external experts to be addressed in a less complex way  
• Based on concepts considered in ET-GA revisions | • Introduces a level of subjectivity to determine which external experts should be subject to the select independence requirements |

TF preliminary view: Approach C offers a balanced approach
Approach C: Example Decision Tree for PAs

**All Experts**
Enhanced ethical framework to identify, evaluate and monitor appropriateness of the use of an expert (slides 12-16)

**Additionally for external expert used in audit or other assurance or NAS engagement**

**Will the external experts’ work significantly influence the outcome of the engagement?** (slide 26)

- **N**
  - No further action

- **Y**
  - **Is it an assurance (incl. audit) engagement?**
    - **N**
      - Apply “reason to believe” principle to objectivity analysis
    - **Y**
      - Select Independence Requirements (slides 27-28)

TF preliminary view for discussion
Example considerations to evaluate the level of significance of the external expert’s work on the outcome of the engagement:

• The nature, scope, and objective of the intended use of the external expert.
• Criticality of the work of the external expert to the outcome of the audit or other assurance engagement, including group engagement as relevant.
• The complexity and subjectivity of the work of the external expert including reliability of underlying data.
• The degree of responsibility the external expert has over the inputs, assumptions and methodologies used.
• Whether the work of the external experts is based on generally accepted standards or law or regulation such that the work if performed by two or more parties are not likely to be materially different.
• The external expert’s relevant financial interests, loans and guarantees, relationships and circumstances.
Approach C: Possible Independence Requirements

External expert as an individual
Independence requirements around the individual’s:
- Financial Interests
- Loans and Guarantees
- Business Relationships
- Family and Personal Relationships
- Recent Service with a Client
- Serving as a Director or Officer of a Client
- Employment With a Client

External expert as an entity
Independence requirements around the entity (and its controlling shareholders and the client’s controlling shareholders):
- Financial Interests
- Loans and Guarantees
- Business Relationships
- Provision of NAS
Approach C: Address Other Matters Focused on External Experts

- Individuals vs organizations
- PIE vs non-PIE
- Group engagements
- Period of Independence
- Communication expectations between an engagement partner and the external expert
- Failure of external expert to comply, or potential breach with the contractual independence requirements contained in the engagement letter
- Scalability
- Documentation
- Profession-agnostic standards in relation to sustainability assurance
Matters for Consideration

IESBA members are asked to share any comments, questions, or reactions to the Task Force’s preliminary views
Timeline

IESBA approval of project proposal
December 2022

Discussion of Issues with IESBA and IESBA CAG
March 2023

Global Roundtables
March/April 2023

Approval of Exposure Draft
December 2023

First Read of proposals with IESBA and IESBA CAG
September 2023

Discussion of Issues with IESBA
June 2023
1. (a) How are experts used in sustainability reporting or assurance?
   (b) Are the example definitions for experts appropriate in this context?

2. Is the proposed approach to addressing the ethical (including independence) expectations regarding the use of experts appropriate, and why?

3. What are the considerations for a PA to assess the significance of the expert’s work to the PA’s work? For example, whether the subject matter is emerging, complex, or critical to the PA’s work?

4. (a) For assurance work, if the external expert’s work is significant to the PA’s work, what are the facts and circumstances between the external expert and the firm’s assurance client that should be assessed by the PA? Consider, for example:
   • Financial Interests
   • Loans and Guarantees
   • Business Relationships
   • Family and Personal Relationships
   • Recent Service with an Audit Client
   • Serving as a Director or Officer of an Audit Client
   • Employment With an Audit Client
   (b) How about external experts used in NAS?

5. Should the proposed approach focus on the:
   • Individual expert?
   • Expert’s team? and/or
   • Expert’s organization?