

IESBA

International  
Ethics Standards  
Board for Accountants®

# Use of Experts

March 2023 IESBA CAG Meeting

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# Objectives of the Session

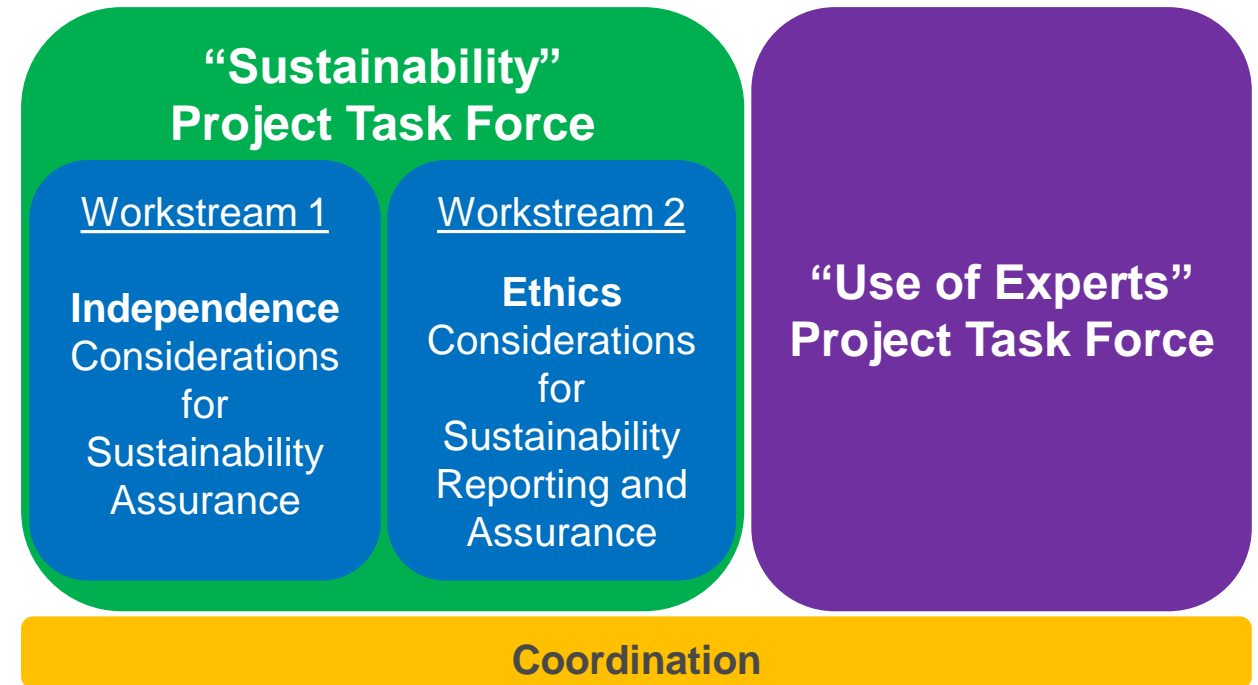
To provide feedback on the Task Force's preliminary consideration of:

- Matters relating to the ethical (including independence) behavior expected of experts when they are used by PAs.
- The proposed framework to guide PAs in determining whether the use of experts is appropriate.



# Recap & Key Activities Since Last CAG Update Sep '22

- **IESBA Meeting Sep '22:** Agreed on three sustainability workstreams to address:
  - Profession-agnostic ethics (including independence) standards for sustainability assurance.
  - Ethical dimension of a PA's role in the production, preparation and presentation of sustainability-related information.
  - Ethics (including independence) considerations arising when PAs use the work of experts.
- **IESBA Meeting Dec '22:** Two separate project plans approved:
  - Recognizing that the “use of experts” is broader than just sustainability.





# Reason for the Project

- 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 behavior and independence 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?
  - Individuals or organizations that possess expertise (skills, knowledge and experience) in a particular field or area.
  - Ranging from well-established to emerging fields or areas.
  - 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 ethics perspective.
  - Consideration of whether external experts should be subject to independence under the Code.

# 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.

**TF preliminary view:**  
To enhance robustness given increasing use of experts especially in emerging fields or areas

# 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 with a  
balanced approach

# 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*



# Task Force Considerations

## 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.

## 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.

# Task Force Considerations

## 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.
- 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?

Pros	Cons
<ul style="list-style-type: none"><li>• Recent environment seeing an increased reliance on wide range of different experts providing inputs into the opinion/report.</li><li>• Stakeholders have heightened expectation of the objectivity of external experts.</li><li>• Public interest arising from the reliance on the work of external experts.</li><li>• 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.</li></ul>	<ul style="list-style-type: none"><li>• Do not have the quality systems and processes and controls in place which a PA (or their firm or network firm) needs to implement.</li><li>• Not under direction and supervision of the engagement partner.</li><li>• Independence (linked to objectivity which is already required under ISA 620) might be an overly rigorous set of requirements to apply to external experts.</li><li>• May limit pool of available experts (give rise to practicality issues).</li><li>• Cost and complexity of imposing independence requirements on the external expert and monitoring compliance.</li></ul>

**TF preliminary view:**  
Yes – to consider an appropriate approach

# Addressing Independence for an External Expert

Coordination  
with IAASB

**For all experts  
Enhanced ethical  
framework for a PA to  
identify, evaluate and  
monitor  
appropriateness of  
the use of an expert**



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



**Approach to  
address  
Independence?**



# Matters for Consideration

CAG Representatives are asked to share any comments, questions, or reactions to the Task Force's preliminary views



# Possible Approaches to Assessing Independence of External Experts

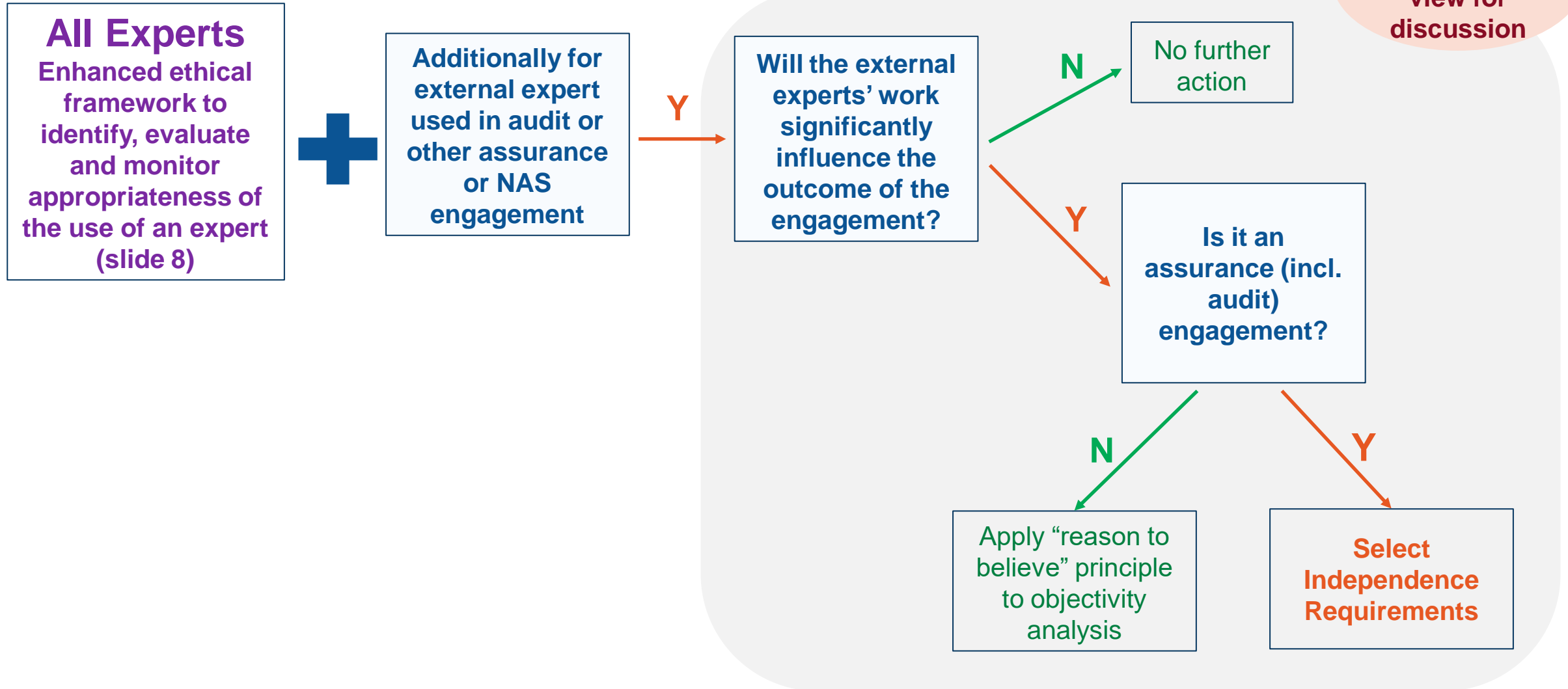
**TF preliminary view:**  
Approach C offers a balanced approach

PA's would assess whether the external expert has:

Possible Approaches	Pros	Cons
A. Complied with Part 4A for audit and review engagements	<ul style="list-style-type: none"> <li>Meets certain stakeholder expectations</li> <li>Conceptually simpler</li> </ul>	<ul style="list-style-type: none"> <li>Disproportionate burden on external expert and firm which might result in a limited pool of experts available (chilling effect)</li> <li>Cost and complexity for monitoring compliance with independence vs uplift in audit quality</li> </ul>
B. Complied with ET-GA revisions for individuals out-of-network who are part of audit team (Part 4A within a limited perimeter)	<ul style="list-style-type: none"> <li>Example framework already established with ET-GA revisions</li> </ul>	<ul style="list-style-type: none"> <li>ET-GA approach is for audit engagements, while use of external experts extends to audit and other assurance engagements</li> <li>It is the external expert's <i>work</i> which might directly influence the audit outcome rather than the external expert in a decision-making capacity that impacts the outcome of the audit</li> </ul>
C. Complied with select requirements specific to the external expert used (Introduce differentiated and scalable framework)	<ul style="list-style-type: none"> <li>Focused and scalable independence requirements for the use of certain external experts to be addressed in a less complex way</li> <li>Based on concepts considered in ET-GA revisions</li> </ul>	<ul style="list-style-type: none"> <li>Introduces a level of subjectivity to determine which external experts should be subject to the select independence requirements</li> </ul>

# Approach C: Example Decision Tree for PAs

TF  
preliminary  
view for  
discussion



# Matters for Consideration

CAG Representatives are asked to share any comments, questions, or reactions to the Task Force's preliminary views





# Timeline



# Sustainability Roundtable Questions

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?



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