Use of Experts Project –
Summary of Key Roundtable Feedback and Task Force Responses

I. Executive Summary

1. This paper considers the significant issues related to the use of experts raised by participants at the IESBA’s global sustainability roundtables\(^1\) and the related Task Force responses.

2. The key proposals set out in the briefing note for the roundtable participants were:
   - To introduce new definitions of “expert,” “internal expert,” and “expertise” in the glossary to distinguish experts from other individuals used in a multidisciplinary team.
   - To introduce a principles-based approach (“enhanced ethical framework” in Parts 2 and 3 of the Code) to guide professional accountants (PAs) in their determination as to who is an appropriate expert to use.
   - To make the case that for external experts used in an audit or other assurance engagement, it is in the public interest for select independence requirements to apply to such experts to safeguard their objectivity. Specifically, if the external expert’s work significantly influences the outcome of the assurance engagement, then the Code should require such expert to be independent (“significant influence test.”)

3. Participants generally agreed with a principles-based approach to assessing whether the use of an expert is appropriate, depending on the facts and circumstances. Concerning external experts used in an audit or other assurance engagement, there were mixed views as to whether they should be independent and concerns over the implementability of the significant influence test. In particular, five key themes arose from participants’ feedback:
   A. Questions over why the project is necessary since the use of experts is not a new phenomenon.
   B. Suggestions on determining who is an appropriate expert to use, particularly for emerging fields such as sustainability.
   C. Concerns over the practicality of requiring external experts to be independent in an audit or other assurance engagement.
   D. Concerns over the appropriateness of the significant influence test.

\(^1\) In response to questions 10 to 15 related to the Use of Experts project contained in the Briefing Note For Global Sustainability Roundtables. Additional background information on the topic was provided to participants in Supplement 3.
E. Suggestions on other matters the project should consider.

4. Regarding the questions about the rationale for the project, the Task Force has carefully laid out the reasons for the project in Section A of this paper. The Task Force proposes that this rationale be included in the explanatory memorandum to the Exposure Draft.

5. Given the roundtable feedback on the matter of requiring independence of external experts, the Task Force is proposing a revised approach concerning independence considerations for external experts. This approach recognizes concerns about the practicality of the Code imposing independence requirements directly on external experts as the firm cannot monitor and enforce compliance with those requirements on such experts. The revised approach builds on the premise that the PA needs to evaluate the external expert’s objectivity, measured against appropriate independence considerations based on Part 4A of the Code, in the case of an audit, to determine whether or not to use the external expert’s work. Accordingly, the provisions to be developed will be contained in Part 3 of the Code and not Part 4A/Part 4B (or the equivalent independence sections in the proposed new Part 5 for sustainability assurance engagements).

6. Finally, the Task Force has commenced considering the various suggestions provided by the roundtable participants in developing preliminary provisions addressing the determination of who is an appropriate expert and related issues concerning the use of an expert.

7. **Agenda Item 5-C** – Strawman of Proposed Revisions to the Code (Part 3 and Glossary) sets out preliminary text illustrating the Task Force’s proposals in response to the feedback from the roundtables as well as from the March 2023 Board and CAG discussions.

II. Introduction

8. The IESBA held four global roundtables from late March to early April 2023 to obtain stakeholder input to help shape the development of new ethics and independence standards for sustainability reporting and assurance, as well as the use of experts in reporting and assurance (including sustainability-related).

9. 142 participants across a wide range of stakeholder categories attended the four roundtable locations: Paris (38 participants, 27%), Sydney (34 participants, 24%), Singapore (29 participants, 20%), and New York (41 participants, 29%):
10. Each roundtable had three breakout groups to the questions contained in the briefing note. Each breakout group comprised 10 to 15 participants and was held under “chatham house rule” to enable a frank and open discussion.

11. The feedback summarized in this paper is anonymized and refers only to views from specific stakeholder groups where relevant. Appendix 1 provides an overview of the organizations of roundtable participants, bearing in mind that the views expressed by the participants were not necessarily those of their organizations.

III. Significant Issues Raised and Task Force Responses

A. Why the Project is Necessary

12. The briefing note introduced the project, conducted in tandem with the sustainability project. Also, it introduced tentative definitions of the terms “expert,” “internal expert,” and “expertise” in the glossary to distinguish individuals referred to as experts from other individuals used in a multidisciplinary team. The briefing note also introduced a proposed revision to the extant definition of “external expert” applicable in Part 4 of the Code to align with the proposed definitions of “sustainability assurance team” and “engagement team” in the sustainability project and proposed ISSA 5000.²

13. A few participants questioned the need for, and value of, introducing the new definitions in the Code now when they did not exist before.

14. A few participants also questioned the reason for the IESBA to undertake the project, particularly when the use of experts is not a new phenomenon. A few other participants, however, expressed support for the project, as:

- There is a perception of a need for more clarity regarding ethical considerations pertaining to the use of experts in the sustainability field due to an expectation that a broader range of experts would be used and a wider spectrum of competence among those experts.
- The increase of third-party experts used in an organization’s processes introduces more challenges for those charged with governance (TCWG), and its auditors or assurance providers, as there is a need for confidence to be gained over more inputs from different parties.

15. Some participants questioned why the project is contemplating independence for external experts when the IAASB’s ISA 220 and IESBA’s Engagement Team – Group Audits (ET-GA) projects have already determined that external experts are not part of the engagement team or the audit or assurance team, and hence not subject to independence. It was noted that the firm does not have the ability to direct, supervise or review the work of external experts, or monitor them.³

16. Other participants commented that the issue is the different independence expectations for external experts as compared to others on the engagement team – specifically, why external and internal experts are not subject to the same independence requirements when their work forms part of the audit or assurance engagement.⁴ A participant questioned whether the current position gives rise to the possibility that firms could structure the assurance engagement team to use more individuals not

² Proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements

³ Firm

⁴ Firm, Regulator, Other
subject to independence requirements.5

17. Another participant expressed the view that the existing symmetry between the definitions and requirements for audits and assurance contained in the Code and the ISAs/ISAEs, including for the use of external experts, should be maintained.

Task Force Responses

The Impetus for the Project

18. During the IESBA’s deliberations in developing the revised engagement team definition in the ET-GA project, questions were raised (including by the PIOB) as to whether external experts should be subject to independence requirements in audits and other assurance engagements. The PIOB has observed that given the growing involvement of experts in areas such as estimates and technology and, in particular in sustainability, it is in the public interest to assess whether the nature of their work and contribution to the audit/assurance opinion requires further independence requirements, similar to other individuals that are part of the engagement team.6

19. In addition, responses to the IESBA’s April 2022 strategy survey, the ET-GA Exposure Draft, feedback from the April 2022 Tax Planning Global Roundtables, as well as the Technology Working Group’s fact-finding work recognized the importance of reviewing the ethics and independence issues arising from a PA’s use of an expert. In particular, comments or observations raised included the following:

- Whether the role and independence of experts providing sustainability-related services are sufficiently accommodated in the Code. It was suggested that the IESBA consider the impact of the increasing use of experts on the Code, particularly in relation to sustainability-related services.
- Preparing and presenting financial and, in particular, non-financial information (e.g., sustainability information) typically involve the assistance of, or reliance upon, technology experts. The question arose as to the factors PAs should consider to gain confidence that a technology expert can be trusted and relied-upon to make ethically appropriate decisions, and whether the Code should serve as a basis for PAs to make such assessment.
- PAs who are not equipped with the necessary expertise or experience to advise the client or employing organization in certain situations need to rely upon the judgments of other firms or experts that have the appropriate competencies. PAs would then need to assume that these firms or experts will operate within a similar ethical framework as the PAs.

20. Further, the IESBA recognized the need to consider the ethics and independence implications of:

- PAs in public practice (PAPPs) using experts in providing professional services other than audit or assurance services.7
- Non-PAs using experts if the scope of the Code were to be expanded to cover sustainability assurance providers who are not PAs (i.e., profession-agnostic standards).

5 Preparer/ TCWG
6 See the PIOB’s September 2022 and November 2022 Public Interest Issues Reports.
7 IESBA Consultation Paper: Proposed IESBA Strategy and Work Plan, 2024 to 2027
• Using experts in sustainability assurance engagements if the Code were to take a framework-neutral approach to developing ethics and independence standards for sustainability assurance (i.e., not limiting the interoperability of those new standards with just the IAASB’s standards).

21. Given the above reasons, in December 2022, the IESBA approved the project to address the ethics and independence considerations relating to the use of experts in (a) audit, sustainability, and other assurance engagements, (b) the preparation of financial and non-financial information, and (c) the provision of professional services other than audit and assurance services.

22. The Task Force proposes that this rationale be set out clearly in the explanatory memorandum to the Exposure Draft.

Definitions of an Expert\(^8\) and External Expert,\(^9\) and Interaction with Definition of Engagement Team\(^10\)

23. To clearly distinguish the scope of any new provisions pertaining to a PA’s use of an expert, the Task Force proposes introducing new definitions in the Code as to who is an “expert,” including an “external expert.” Feedback from the March 2023 IESBA Board meeting suggested that the Task Force consider whether the definition of “external expert” should be expanded beyond the boundaries set out in the extant Code\(^11\) and the Task Force’s March proposed definition,\(^12\) which are based on the extant premise that external experts are only those who possess expertise in a field other than accounting or auditing/assurance.

24. This feedback in particular arose from observations that small and medium practices (SMPs) or small- and medium-sized entities (SMEs) might indeed hire individuals with expertise in accounting or auditing/assurance as the SMPs or SMEs might not have the necessary competence within the firm or organization. In addition, not every PA will necessarily have all accounting or assurance expertise needed for particular professional activities (for example, accounting for financial instruments, despite such matter being accounting-related).\(^13\)

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\(^8\) Proposed revised definition as set out in Agenda Item 5-C: “An individual or organization that possesses expertise outside the professional accountant’s competence.”

\(^9\) Proposed revised definition as set out in Agenda Item 5-C: “An expert engaged by a professional accountant’s employing organization or firm whose work is used to assist the accountant in performing a professional activity or service. In the context of a firm providing a professional service, an external expert excludes a partner or a member of the professional staff, including temporary staff, of a network firm.”

\(^10\) Extant Code: All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.

\(^11\) Extant Code: 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.

\(^12\) March Board Proposal: 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.

\(^13\) Notwithstanding the current premise in the ISAs and the Code which is that PAs are skilled in accounting and auditing, and hence external experts are those that have expertise in non-accounting or auditing fields. ISA 620 recognizes that at times it is a matter of professional judgment to distinguish between what is accounting or auditing expertise, in particular if the subject matter is in
25. Taking into account the feedback at the March 2023 Board meeting and from roundtable participants (who noted that it would be challenging to define experts in emerging fields such as sustainability (see Section B below)), the Task Force is proposing that the definition of an “expert” be expanded to refer to an individual or organization that possesses expertise outside the PA’s competence. On this basis, the Task Force also proposes to define an external expert as an expert engaged by a PA’s employing organization or firm whose work is used to assist the PA in performing a professional activity or service. Additionally, in the context of a firm providing a professional service, an external expert would exclude a partner or a member of the professional staff, including temporary staff, of a network firm.

26. This means that in contrast to the extant definition, the proposed definition of an external expert would be based upon the relative competence of the PA and could include expertise in accounting or auditing/assurance. The Task Force believes that in practice, a PA might not possess all the competence in accounting or auditing/assurance needed for a particular professional activity. Therefore, the scenario where a PA might engage an external expert is realistic and increasingly relevant, especially in emerging fields such as sustainability.

27. Given this proposal, the Task Force considered what the potential impacts on the extant definition of “engagement team” (ET) as set out in the ISAs and the Code might be, since that definition explicitly excludes “external experts.” The Task Force noted the following:

- If the firm engages an individual with expertise in a specialized area of accounting or auditing to perform procedures in an audit engagement, then regardless of whether the definition of an external expert includes or excludes accounting or auditing/assurance expertise, such an individual would always be captured under the ET definition (see paragraph 400.11 of the ET-GA revisions). Further, because such individuals are performing procedures, the engagement partner is responsible for the “direction, supervision and review” of such individual (see paragraphs 29 and A17 to A19 of ISA 220 (Revised)).

- Conversely, there might be an individual with expertise in a specialized area of accounting or auditing who is engaged by the PA to deliver a work product to assist the PA in performing a professional service such as an audit or assurance engagement. Taking the case of an audit, notwithstanding that the PA is responsible for performing audit procedures over such work product to ascertain whether it is adequate and can be used as sufficient appropriate evidence for purposes of the audit (see paragraphs 12 and 13 of ISA 620), this external expert is not a member of the ET because the engagement partner is not able to direct, supervise and review their work.\(^1^4\)

28. The Task Force also considered how internal experts of the firm, i.e., “experts who are employed by, or otherwise part of, the firm,”\(^1^5\) would be addressed from an independence perspective. With input from IAASB staff, the Task Force noted that internal experts used in an audit engagement are in

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\(^1^4\) International Standard on Auditing (ISA) 620, *Using the Work of an Auditor’s Expert*

\(^1^5\) Proposed paragraph 390.4 A1 as set out in Agenda Item 5-C.
essence performing procedures\textsuperscript{16} to enable the firm to obtain audit evidence.\textsuperscript{17} They are also under the direction, supervision and review of the engagement partner. Therefore, such individuals are ET members and would be subject to the full range of independence requirements under the Code.

29. The Task Force also observes that the ET definition only pertains to audit and assurance engagements, and does not apply in non-assurance engagements, or in the context of PAIBs’ professional activities.

30. The Task Force has highlighted this specific matter as a point of continuing coordination in its regular liaison meetings with the IAASB, among other matters.

\textit{Definition of an External Expert and Interaction with Audit/Assurance Team}\textsuperscript{18}

31. The Task Force considered the interaction of the proposed revised definition of an external expert (as set out in the strawman\textsuperscript{19}) with the glossary definition of audit/assurance team (AT). The definition of AT scopes in, for independence purposes, individuals that a firm engages who can directly influence the outcome of the engagement.

32. In this context, the Task Force deliberated whether clause (b)(ii) of the definition of AT could meet the proposed revised definition of “external expert:"

\begin{quote}
(b) All others within, or engaged by, the firm who can directly influence the outcome of the audit/assurance engagement, including:

\...

(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and …"
\end{quote}

33. If the definition of AT were to capture external experts engaged by the firm, those individuals would be subject to the full range of independence requirements of Part 4A in an audit engagement, undermining paragraph 400.11 of the ET-GA revisions, which states that: “…individuals who are external experts are neither engagement team nor audit team members.”

34. The Task Force’s view is the individuals captured under (b)(ii) of the definition of AT are, in substance, providing a learned opinion on a matter at hand which directly affects the overall direction or outcome of the engagement. Specifically, using the context of an audit engagement:

- When a PA’s firm engages an external expert, the external expert delivers a work product that the PA uses to assist in the PA’s performance of the audit engagement. The PA is still responsible and accountable for evaluating whether the expert’s work is adequate and can be

\textsuperscript{16} Paragraph A2 of Proposed ISA 500 (Revised), \textit{Audit Evidence}, describes the concept of audit procedures very broadly by stating that “the auditor obtains audit evidence by designing and performing audit procedures, including … audit procedures that are performed to comply with the ISAs.”

\textsuperscript{17} Proposed ISA 500 (Revised), \textit{Audit Evidence}: “Definition of Audit Evidence – Information, to which audit procedures have been applied, that the auditor uses to draw conclusions that form the basis for the auditor’s opinion and report.”

\textsuperscript{18} As revised by ET-GA.

\textsuperscript{19} Proposed revised definition as set out in Agenda Item 5-C: “An expert engaged by a professional accountant’s employing organization or firm whose work is used to assist the accountant in performing a professional activity or service. In the context of a firm providing a professional service, an external expert excludes a partner or a member of the professional staff, including temporary staff, of a network firm.”
used as sufficient appropriate evidence for purposes of the audit. If the PA determines that the expert’s work cannot be relied upon, the PA may decide not to use the expert’s work for purposes of the audit and seek alternative evidence.

- Conversely, when a PA’s firm engages an individual to provide consultation on a technical or industry-specific issue, transaction or event, such an individual can directly influence the outcome of the engagement. This is because, as set out in ISA 220 (Revised), the engagement partner is required to determine that the nature and scope of, and conclusion resulting from, such a consultation are agreed with the party consulted, and that the conclusion agreed has been implemented.\(^{20}\)

The consultation would, therefore, provide an opinion or advice to enable the PA to reach a conclusion on audit work the PA has performed on the particular technical or industry-specific issue, transaction or event. In these circumstances, the Task Force observes that the engagement partner usually is not able to override such opinion or advice.

Therefore, such an individual can directly influence the outcome of the engagement but does not perform separate work that forms part of the evidence supporting the audit opinion.

35. Given this analysis, the Task Force’s view is that external experts, under the proposed revised definition, are not captured under the definition of AT. Therefore, unlike individuals captured under the definition of AT, external experts are not subject to the independence requirements in Part 4A in the case of an audit, or Part 4B in the case of other assurance engagements.

B. Determining Who is an Appropriate Expert to Use

36. The briefing note proposed a principles-based approach, through an “enhanced ethical framework” in Parts 2 and 3 of the Code, to determine who is an appropriate expert to use.

37. Participants generally supported such a principles-based approach because:

- Not unlike financial reporting, sustainability reporting is also all about estimates and assumptions, and hence the same characteristics as to who is an expert should apply.\(^{21}\)
- Defining an expert or expertise in the context of sustainability work is challenging as expertise in multiple niche and emerging areas is needed across numerous industries and jurisdictions.\(^{22}\)

38. In sustainability (or other new/emerging areas), expertise is a moving target depending on how the reporting requirements evolve, and subject to change in the long-term as capacity is built.\(^{23}\)

39. A few participants\(^ {24}\) expressed the view that there is no need for any change in the Code concerning how an external expert’s work is evaluated because the IAASB’s standards already provide such guidance, which has been used for many years. It was therefore argued that the introduction of an enhanced ethical framework for the use of experts in the Code would appear to be redundant as (i)

\(^{20}\) ISA 220 (Revised), Quality Management for an Audit of Financial Statements, paragraph 35

\(^{21}\) Non-PA, Other, PAO

\(^{22}\) For example, involving experts with jurisdiction-specific expertise will be needed in areas such as biodiversity, carbon, water, toxic waste, greenhouse gas emissions, human rights, occupational health and safety, etc.

\(^{23}\) Firm, Global and Regional SS, PAO, User/Investor

\(^{24}\) INSS
the content is already in the ISA 620, and (ii) the auditor/assurance provider is in any event required to take full responsibility for the audit or assurance opinion, including when the work of the external expert is used as sufficient appropriate evidence.

40. Key suggestions provided by participants to assist in determining who is an appropriate expert to use are set out below:

- Whether the expert has an appropriate level of competence.
  
  Factors that might assist in evaluating whether the expert has the appropriate level of competence include the expert’s credentials (such as formal training or education, and certifications, qualifications or accreditations).
  
  However, for experts in emerging fields in particular, such credentials should be carefully assessed as some are less rigorous and/or specific than others. In addition, there should be caution not to over-rely on an expert’s credentials to determine whether using that expert’s work is appropriate.
  
  Finally, it was observed that some areas of sustainability are so new or niche that such credentialling does not exist.

- The expert’s experience with, and level of understanding of, the subject matter.
  
  Participants noted that given the emerging expertise in fields such as biodiversity, who is considered an expert will become increasingly dependent on the expert’s experience and understanding of the subject matter, rather than the individual’s credentials.
  
  Factors that might assist in evaluating what is considered appropriate experience include whether the expert is actively working in the field, has practical experience in implementation, and the length of time the individual has been performing work in that subject-matter area.25

- Although an expert’s reputation and the existence of a proven track record are valuable in assessing whether the expert is appropriate for the intended use, these attributes will be challenging to assess in emerging fields since there are limited parties who have had prior association with the expert to objectively evaluate the expert’s reputation, and/or proven track records might not exist yet.

- Availability of evidence to support the expert’s decisions and approach.
  
  It was noted that experts generally make decisions hinged on precedence, but in emerging fields there is less precedence and a broader range of scenarios.
  
  Factors that might assist in evaluating whether the approach used by an expert in the expert’s work is appropriate include whether there is [peer-reviewed] academic research or other evidential bases that provide empirical evidence to support the expert’s advice or approach.26

- Whether the expert is subject to professional ethics standards and whether such standards are sufficient for the assurance provider to comply with the Code when using the work of the expert.

- The ability of the PA to assess the competence of an expert. This is because the expert is used because the PA does not have such expertise. However, it was noted that this is not a new

25 Academic, INSS, Non-PA
26 Academic, User/Investor
issue and that it already happens with experts used to value complex financial instruments.

Data and Other Service Providers

41. A few participants also questioned whether third-party data providers are experts.27 In this regard, there was a view that experts could also include data providers28 as well as those who collate29 and interpret data.30 For example, it was observed that in the “social” aspects of sustainability (such as human rights, child labor and indigenous affairs), the individuals who compile the data or provide traditional information are loosely referred to as experts.31

Transparency

42. A participant suggested that preparers should be transparent to their stakeholders about the criteria and rationale for selecting an expert and any inherent risks in using the expert, for example, whether the PA has a long association with the expert.32

Task Force Responses

Determining Who is an Appropriate Expert

43. The key suggestions provided by participants to assist in determining who is an appropriate expert to use have been considered by the Task Force and helped inform the preliminary development of the strawman. The Task Force will further consider the roundtable feedback in fleshing out the strawman.

Introduction of an Enhanced Ethical Framework

44. The Task Force also considered participants’ comments over whether introducing an enhanced ethical framework in the Code would be redundant as the content is already in ISA 620. In the Task Force view, the enhanced ethical framework is necessary because:

- As noted under Section A above (why the project is necessary), the Code is framework-neutral. It cannot be assumed that practitioners who are applying the Code will also be applying ISA 620, ISAE 3000 (Revised)33 or proposed ISSA 5000. They might apply other frameworks such as those standards issued by the International Organization for Standardization (ISO).
- The ethics provisions will need to apply to a broader range of PAPPs (e.g., those performing consulting or advisory services), whereas ISA 620, ISAE 3000 (Revised) and proposed ISSA 5000 only apply to audits or other assurance engagements.
- The enhanced ethical framework details the responsibilities of PAs both before and when using

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27 Firm, Non-PA
28 Firm, User/Investor
29 It was noted that third parties that perform a service that does not involve technical expertise or judgment, such as collating invoices and checking for completeness, are not an expert.
30 PAO, Preparer/TCWG
31 Firm, INSS, Other
32 Firm
33 International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information
the work of an expert to enable the PA to comply with the fundamental principles, in particular, with the principles of professional competence and due care, and objectivity. In this regard, the responsibilities of PAs and guidance in the proposals are more granular than that set out in ISA 620, ISAE 3000 (Revised) or proposed ISSA 5000.

Data and Other Service Providers

45. Similar to its view on using the output of technology such as AI, the Task Force’s view is that data and other service providers who provide services such as collating data, or services that do not involve expertise or judgment, do not meet the definition of experts. Such providers are not experts as they do not possess the skills, knowledge, and experience in a particular field or area to exercise judgment, interpret the inputs and outputs, and be accountable for them. Nevertheless, as part of the PA’s responsibility to comply with the fundamental principle of professional competence and due care, the PA would need to evaluate whether the data or other inputs used in performing the PA’s professional activities or services are relevant, reliable, and free of bias.

46. Additionally, the Task Force recognizes that there is an open question in respect of whether other practitioners whose work is used in a sustainability engagement but who are not under the direction, supervision, and review of a firm, are AT members who can directly influence the outcome of the engagement, or external experts. These other practitioners might, for example, be service organizations that provide ISO certificates to an assurance client, for example, on their emissions. If such other practitioners are deemed AT members, they would be subject to independence requirements under the Code. The Task Force has highlighted this as a point of continuing coordination with the Sustainability Task Force and in its regular liaison meetings with the IAASB, among other matters.

Transparency

47. The suggestion that PAs should be transparent to stakeholders about the criteria and rationale for selecting an expert, and any inherent risks in using the expert, has been considered in developing the strawman by drawing a linkage to paragraph R113.334 as revised by the technology project.

C. External Experts: Practicality of Requiring Independence

48. The briefing note made the case that for external experts used in an assurance engagement, it is in the public interest for select independence requirements to be required of such experts to safeguard their objectivity. For example, such independence requirements could be in relation to 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, and employment with a client.

49. Some participants highlighted reasons why they felt it would be impractical to impose independence requirements on external experts. The arguments advanced include the following:

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34 Revised paragraph R113.3: Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant’s professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

35 For example, through stipulating such requirements contractually when the firm engages the external expert.

36 INSS, Firm, Non-PA, User/Investor
• The Code is not enforceable on external experts.
• External experts might not even understand what ‘independence’ entails.
• In emerging fields and geographies, there might be a limited number of experts and there would be assurance quality issues if no experts are available.
• It would be onerous and almost impossible to monitor and control the independence of external experts if a firm’s system of quality management were extended to cover external experts.
• The onus is still on the assurance provider to ensure that the evidence from the external expert is reliable and constitutes sufficient appropriate evidence.

50. In this regard, some participants supported a principles-based approach in determining whether the external expert is objective as the facts and circumstances will differ on a case-by-case basis. It was noted that the factors listed in the briefing note were all fair examples to guide the assurance provider’s thought process about what should be considered when assessing the objectivity of an external expert, but that none of them should be a blanket prohibition with regards to independence for the external expert.\(^{37}\) Instead, there was a view that the assurance provider should identify and evaluate the level of threats to the external expert’s objectivity. If the threats are not at an acceptable level, the assurance provider would need to address those threats before relying on the expert’s work.\(^{38}\)

51. A few participants pointed out that currently, achieving objectivity (let alone independence) in a particular niche area or field is already challenging because there is a scarcity of experts available, and it is likely that they are affiliated with the dominant players in the particular field or the clients (for example, whether in the form of financial interests in the expert’s organization or the expert is already advising other subsidiaries of the client).\(^{39}\) In this regard, a few participants expressed the view that the competence of the external expert is far more important than the expert’s independence.\(^{40}\)

52. However, some participants believed that all external experts should be independent, just like members of the engagement team or assurance team.\(^{41}\) The Task Force was urged to think about the issue from the perspective of a reasonable knowledgeable investor. For example, it was argued that if an external expert were to have financial interests in, or relationships with, the client, this would impact the credibility of the sustainability assurance report issued. In addition, there was a view that the credibility of the assurance report would also be questioned if the external expert is an advocate concerning the subject matter of the expert’s work or had management roles in the client.

53. A participant commented that if an external expert is not independent, the assurance report should disclose that fact so that users can decide whether to rely on such report.\(^{42}\) Another participant noted that because there is a limited number of experts, it would be unfortunate to issue a “limited scope” assurance report as the external expert was not independent. The participant considered that the information produced by the expert would still be valid and of public interest since there is a lack of

\(^{37}\) Firm, User/Investor, Preparer/ TCWG, Other

\(^{38}\) Firm

\(^{39}\) PAO, Non-PA, Firm

\(^{40}\) INSS, PAO

\(^{41}\) Firm, User/Investor, Other

\(^{42}\) User/Investor
Participants suggested additional circumstances other than those set out in the briefing note that might impact the level of threats to an external expert's objectivity:

- The source of funding for the expert’s organization, and the identity of the individual or organization that is providing the funding. For example, it was observed that technology or sustainability experts are often funded by a few players, for example, private equity (PE) firm(s) specializing in the relevant fields or areas.
- The individual or organization that recommended the specific expert in question and the basis for such recommendation.

Participants also highlighted circumstances where the level of threat to the external expert's objectivity is increased, and in a few instances, expressed a view that such circumstances should be permissible only under certain conditions:

- Fee dependency.
- Financial interests and other vested interests. For example, a valuation expert may have a vested interest in providing an advantageous valuation for the relevant item because they can benefit through participating in an anticipated listing for the entity, or they have interests in property adjacent to the subject matter being valued. It was also questioned what should be the appropriate threshold for prohibiting an external expert from having financial interests in the client, i.e., should immaterial financial interests in the company be prohibited?
- Bank or loan guarantees. For example, these should only be permissible if under normal business terms.
- Close business or family relationships with the entity.
- Current or recent employment with, or service as a director or officer of, a client.
- Where there is a self-review threat, for example, where the expert has developed a specific model or system, or provided expertise, which a company uses, and the expert is also engaged by the company to provide assurance on the related item or matter.

Other Considerations

There was also a suggestion that apart from the PA inquiring the external expert regarding the expert’s interests and relationships with the client, the PA can also inquire of the client about whether they are aware of any interests or relationships with the expert in question.

It was also questioned what the appropriate period of independence for an external expert should be, what happens if a subsequent event makes them no longer independent, and the independence implications of recurring engagements.

A few participants agreed that independence for external experts should focus on the individual, the team the expert is working with, and the expert’s organization. However, there was a view that independence should only apply to the individual external expert to allow for safeguards to be applied.

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43 User/Investor
44 Academic, Non-PA, Regulator
i.e., if one individual’s independence is compromised, they can be replaced by another individual in the organization.

59. A few participants also highlighted the importance of communication and transparency of expectations between the external expert and the firm and TCWG.

**Task Force Response**

60. The Task Force acknowledges the mixed views at the roundtables regarding whether to require independence of external experts. Having further reflected on the roundtable feedback, the Task Force believes that the determining factor is whether the firm can monitor and enforce the external expert’s compliance with the independence requirements if the Code were to impose them. As this cannot be the case in practice, the Code cannot impose such requirements directly on them. Therefore, it would not be appropriate to include external experts within the scope of the International Independence Standards (Part 4A for audits, Part 4B for other assurance engagements, and the independence sections of the proposed new Part 5 for sustainability assurance engagements.)

61. However, given public perceptions about the impact of an external expert’s objectivity on the credibility of the audit or assurance report, as highlighted by some roundtable participants, the Task Force believes that it would be appropriate and in the public interest to apply relevant independence considerations to external experts when considering their objectivity. This is also supported by the general consensus among roundtable participants that, at the very minimum, the independence considerations set out in the briefing note (for e.g., in relation to financial interests, business relationships, employment relationships, etc.) are reasonable and fair questions to ask of the external expert.

62. This approach builds on the acknowledgment that external experts are not AT members and cannot be monitored and supervised by the PA’s firm. Therefore, the application of independence considerations will have to be through PAs and, in the case of sustainability assurance, other assurance providers as well. The key principle in this approach is that if a PA (or sustainability assurance provider) cannot satisfy themselves that the external expert is objective, measured against the independence considerations as proposed in the strawman, the PA cannot use the external expert’s work in the engagement.

63. Following the June 2023 IESBA meeting, the Task Force will, based on the directional input from the Board, further develop the approach and propose further guidance as to how a PA might apply the independence considerations. This will include consideration of the extent to which independence constraints should apply to external experts depending on various considerations such as the nature of the entity (public interest entity (PIE) or non-PIE), the availability of experts, the significance of the expert’s financial interests in, or business relationships with, the client, etc.

**D. External Experts: Appropriateness of the Significant Influence Test**

64. The briefing note proposed consideration of a “significant influence test” to allow a balanced approach to independence for external experts. That is, only if the external expert’s work is deemed to significantly influence the outcome of the assurance engagement would such expert be required to be independent.

65. Although a few participants supported the intent of a balanced approach, participants generally found the concept of a “significant influence test” confusing. For example, they questioned what would
contribute “significant influence on the outcome of the engagement” in practice and what the interaction would be between “significant influence” and concepts of materiality (qualitative and quantitative) and double materiality.

66. There were also views that the significant influence test is not necessary because:

- It does not change the assurance practitioner’s responsibility for the opinion, and that financial statement audits are conducted using a risk-based approach.
- Significance might change over time based on changes in the facts and circumstances.
- The threats to using an external expert should be assessed regardless of how significant the external expert’s work is. If those threats are not at an acceptable level, they should be addressed, and this could include not using the expert’s work or applying some safeguards.
- It is unclear whether the significance test is for specific accounts or for the overall report and how it interplays in the broader context, such as in the context of carbon offsetting and ESG ratings.
- Sustainability reporting might have thousands of data points, and an expert might be needed to determine what might be significant or material in that context.

67. A few participants expressed surprise at the test of significant influence as the rebuttal presumption would be that an external expert would not be used otherwise. It was suggested that a consistent approach be adopted for all external experts – either through assessing whether the threats to the external expert’s objectivity are at an appropriate level or requiring independence of the external expert.

68. Participants also suggested additional circumstances other than those set out in the briefing note that might impact the risk of relying on the external expert’s work as sufficient appropriate evidence, such as the nature of the expert’s work, the extent of reliance, and whether the expert’s scope of work is a review or a validation.

Task Force Response

69. Reflecting on the general feedback from the roundtable participants, the Task Force has withdrawn its proposal for a significant influence test to determine for which external experts’ independence would be required. See also the discussion in Section C above on independence for external experts.

E. Other Circumstances that the Project Should Consider

70. Participants also highlighted additional circumstances that should be considered in progressing the project. They are as follows:

- When the work of a management’s expert is used by the auditor or assurance practitioner to obtain sufficient appropriate evidence.

In particular, it was argued that it should be clear that the independence for external experts contemplated in this project concerns the external expert engaged by the auditor or assurance practitioner.
practitioner, not the management’s expert.

- When multiple experts are used:
  - To produce a sustainability report and where some of the reporting is done for multiple purposes under different frameworks for different regulators.
  - In a sustainability assurance engagement. In addition, whether there should be joint accountability in terms of signoffs, or some form of peer review, due to the breadth of experts used.
  - Along the lifecycle of the sustainability value chain. For example, when an expert advises company A on its sustainability reporting and also provides assurance to another company that is part of company A’s value chain, and vice versa.

- The approach for external experts used by SMPs. This is because SMPs are likely to be more dependent on external experts. It was observed that larger firms have been investing heavily to have the relevant subject matter internal experts who apply the same ethics and independence standards as other personnel in the firm.

- The approach for assurance engagements of heightened public interest for PIE clients versus non-PIE clients.

- The approach for external experts used in a limited assurance engagement versus reasonable assurance engagement.

- When non-PA sustainability assurance providers use external experts. In particular, if the Code will apply to non-PA assurance providers, it should be extended to cover external experts used by non-PAs.

- A participant also commented that rather than focusing on the independence of external experts used in an assurance engagement, the focus should be on when assurance providers rely on or use the work of other assurance providers, which is particularly relevant in the sustainability space. This is similar to the consideration of component auditors in the ET-GA project.

**Task Force Response**

71. Regarding the suggestions to address the use of a management expert and multiple experts, these considerations have been incorporated in the strawman on a tentative basis. However, the Task Force notes that whether there should be joint accountability is outside the remit of the Code and this project.

72. For the suggestions of a balanced approach to external experts based on:

   - Whether the engagement is a reasonable or limited assurance engagement.
     The Task Force notes that since the Code does not distinguish between reasonable and limited assurance engagements, such consideration will not be introduced for external experts.
   - Whether the client is a PIE or non-PIE client, and whether the practitioner or firm is an SMP.
     This will be considered further by the Task Force after the June 2023 IESBA meeting.

73. Regarding the consideration where external experts are used by non-PA sustainability assurance
providers, following the directional input from the Board on the proposed approach at its June 2023 meeting, the Task Force will commence developing drafting in coordination with the Sustainability Task Force. This new section will be contained in the equivalent of Part 3 in the new Part 5 for sustainability assurance to be considered by the IESBA at its September 2023 meeting.

74. Finally, regarding the consideration of group sustainability assurance engagements, this is being addressed by the Sustainability project.

IV. Consideration of the Public Interest Framework (PIF)

75. The Task Force recognized that the presentation of the new standards must meet the key characteristics of the PIF. In particular, the standards need to be comprehensive, scalable, clear, implementable, and enforceable. The table below shows the Task Force’s preliminary assessment of the extent to which the approach set out in the strawman meets the key PIF characteristics (five stars mean it fully meets, and one star indicates that it fails to meet the characteristic). The assessment is incomplete as it reflects the early stage of development of the proposals and will evolve after input from the IESBA at its June 2023 meeting.

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<th>PIF Attributes</th>
<th>Comprehensiveness</th>
<th>Scalability</th>
<th>Clarity</th>
<th>Implementability</th>
<th>Enforceability</th>
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Appendix 1

List of Participants’ Organizations at Global Roundtables

This list below includes the organizations of roundtable participants in alphabetical order. Some participants indicated multiple organizations where they held positions.

1. AccountAbility
2. Accountancy Europe
3. Accounting and Corporate Regulatory Authority, Singapore (ACRA)
4. Accounting Professional & Ethical Standards Board, Australia (APESB)
5. American Institute of Certified Public Accountants (AICPA) & Chartered Institute of Management Accountants (CIMA)
6. AICPA Uniform Accountancy Act Committee
7. AssuranceMark
8. Auditing and Assurance Standards Board, Australia (AUASB)
9. Australian Accounting Standards Board (AASB)
10. Australian Institute of Company Directors
11. Australian Securities & Investments Commission (ASIC)
12. Australian Taxation Office
13. Chartered Accountants Australia and New Zealand (CA ANZ)
14. Center for Audit Quality (CAQ)
15. Chartered Accountants Ireland
16. Chartered Professional Accountants of Ontario, Canada
17. Collins Aerospace
19. Compagnie Nationale des Commissaires aux Comptes (CNCC)
20. Council of Institutional Investors (CII)
21. CPA Australia
22. CPA Canada
23. CTR-CSR (Belgian Audit Oversight Board)
24. Deakin University
25. Deloitte & Touche LLP

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47 The views expressed by participants at the Roundtables do not necessarily represent the views of their respective organizations.
26. DNV
27. Durham University
28. EFRAG Sustainability Reporting Board
29. Ernst and Young
30. ESG Partners Inc.
31. European Commission
32. European Federation of Accountants and Auditors for SMEs
33. European Securities and Markets Authority (ESMA)
34. Exemplar Global
35. Financial Reporting Council, Australia
36. Global Reporting Initiative (GRI)
37. Grant Thornton
38. Haut Conseil du Commissariat aux Comptes, France (H3C)
39. Hong Kong Institute of Certified Public Accountants (HKICPA)
40. International Association for Accounting Education & Research (IAAER)
41. International Association for Sustainable Economy (IASE)
42. International Auditing and Assurance Standards Board (IAASB)
43. International Federation of Accountants (IFAC)
44. International Organization for Standardization (ISO)
45. International Organization of Securities Commissions (IOSCO)
46. Institute of Chartered Accountants in England and Wales (ICAEW)
47. Institute of Chartered Accountants of Scotland (ICAS)
48. Institute of Electrical and Electronics Engineers (IEEE)
49. Institute of Internal Auditors
50. Institute of Public Accountants, Australia (IPA)
51. Investment Company Institute (ICI)
52. Japanese Institute of Certified Public Accountants (JICPA)
53. Korean Institute of Certified Public Accountants (KICPA)
54. KPMG
55. La Trobe University
56. Malaysian Industrial Development Finance Berhad
57. Malaysian Institute of Accountants (MIA)
58. Mazars
59. MNP
60. Monetary Authority of Singapore (MAS)
61. Monitoring Group
62. Moore Global
63. MSCI
64. National Association of State Boards of Accountancy (NASBA)
65. New Zealand Auditing and Assurance Standards Board (NZAuASB)
66. Norges Bank Investment Management
67. Nova Southeastern University
68. Organisation for Economic Co-operation and Development (OECD)
69. Olive Tree Estates Limited
70. PricewaterhouseCoopers LLP (PwC)
71. Securities Commission Malaysia
72. Securities Investors Association, Singapore (SIAS)
73. Singapore Exchange Regulation (SGX RegCo)
74. Singapore Institute of Directors (SID)
75. Straco Corporation Limited
76. Temasek Holdings Limited
77. U.S. Government Accountability Office (US GAO)
78. University of Melbourne
79. University of Pretoria
80. US Integrated Reporting Committee
81. Willis Towers Watson
82. Woodward & Curran
83. World Bank
84. World Federation of Exchanges (WFE)