Use of Experts
Matters for Consideration

IESBA Meeting – June 2023

Laurie Endsley, IESBA Vice Chair and Task Force Chair
Kam Leung, IESBA Principal
IESBA to consider key feedback from the roundtables and the TF’s:

- Proposed responses
- Related proposals in the strawman
# Roundtable Participants

<table>
<thead>
<tr>
<th>Stakeholder Category</th>
<th># Participant</th>
<th>%</th>
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<tbody>
<tr>
<td>Academic</td>
<td>7</td>
<td>5%</td>
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<tr>
<td>Firm</td>
<td>36</td>
<td>25%</td>
</tr>
<tr>
<td>Independent Standard Setter</td>
<td>8</td>
<td>6%</td>
</tr>
<tr>
<td>Non Professional Accountants</td>
<td>12</td>
<td>8%</td>
</tr>
<tr>
<td>Other (Incl IFAC, US GAO, EFAA)</td>
<td>6</td>
<td>4%</td>
</tr>
<tr>
<td>Professional Accountancy Organizations</td>
<td>23</td>
<td>16%</td>
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<tr>
<td>Preparer/Those Charged With Governance</td>
<td>8</td>
<td>6%</td>
</tr>
<tr>
<td>Regulator</td>
<td>20</td>
<td>14%</td>
</tr>
<tr>
<td>User/Investor</td>
<td>13</td>
<td>9%</td>
</tr>
<tr>
<td>Global and Regional Standard Setters (Incl EFRAG, OECD, ISO, IAASB)</td>
<td>9</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>142</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

- **142** participants
- **84** organizations

- Paris 27%
- Sydney 24%
- Singapore 20%
- New York 29%
Recap of RT Briefing Note

- Definitions to delineate with others used in a multi-disciplinary team
- Principles-based approach ("enhanced ethical framework") to determine who is an expert
- Proposal to require independence of external experts whose work significantly influences the outcome of an assurance engagement
Why the Project is Necessary

Reservations from RT Participants
- Use of experts is not a new phenomenon
- There is already existing guidance in the ISAs
- ISA 220 and ET-GA determined that external experts are not part of the engagement (or audit/assurance) team
  - Hence not subject to independence as the firm does not have the ability to direct, supervise or review the external expert
  - There is no need to reopen this determination

Support from RT Participants
- Additional guidance is beneficial especially given the growing use of experts in reporting and assurance
- The issue is the different independence expectations for external experts as compared to others on the audit/assurance team who are also externally engaged by the firm

TF Response
- To further clarify the reason for the project in EM
Proposed Glossary Definitions

**Rationale**
Responsive to IESBA comments in March 2023, the proposed definitions consider (i) expertise to include accounting and auditing/assurance matters, (ii) distinguishing a management’s expert from other experts.

<table>
<thead>
<tr>
<th>Expert</th>
<th>An individual or organization that possesses expertise outside the professional accountant’s competence.</th>
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<tbody>
<tr>
<td>Expertise</td>
<td>Skills, knowledge and experience in a particular field or area.</td>
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<tr>
<td>External Expert</td>
<td>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.</td>
</tr>
<tr>
<td>Management’s Expert</td>
<td>An expert employed or engaged by a client.</td>
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*For Ref: External Expert (Mark-Up from Extant)*

An expert engaged by a professional accountant’s employing organization or firm 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 performing a professional activity or service, obtaining sufficient appropriate evidence. 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.
What are the potential impacts of the proposed definitions of ‘expert’ and ‘external expert’ on the definition of ET?

• **ET Definition:** 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.

• ET members are individuals who perform procedures:
  - As long as the individual (even if they have specialized accounting or auditing/assurance expertise and are engaged by the firm) performs procedures, they are always ET members.

• External experts perform work that the PA will use to assist it in performing its professional service:
  - Not under the direction, supervision and review of the engagement partner.
  - PA is still responsible for performing procedures to determine whether such work is adequate and can be used as sufficient appropriate evidence for the engagement.

• Hence, the proposed definition of external experts does **not** impact the definition of ET.
<table>
<thead>
<tr>
<th>Are internal experts (experts engaged by the firm) part of the ET? If so, they are required to be independent</th>
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<tr>
<td><strong>ET Definition:</strong> 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.</td>
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<tr>
<td>• ET members are individuals who perform procedures.</td>
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<tr>
<td>• Internal experts are those experts who are employed by, or otherwise part of, the firm.</td>
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<tr>
<td>• They are under the direction, supervision and review of the engagement partner.</td>
</tr>
<tr>
<td>• They perform procedures to assist in the gathering of sufficient appropriate evidence.</td>
</tr>
<tr>
<td>• They are therefore <strong>part of the ET</strong> and required to be independent.</td>
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</table>
External experts are required to be independent if they meet the definition of AT. Does the definition of AT capture ‘external experts’?

- **AT Definition:** … All others within, or engaged by, the firm who can directly influence the outcome of the audit/assurance engagement, including … those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement …

- AT members who provide consultation can directly influence the outcome of the engagement because under ISA 220, the conclusions arising from the consultation must be agreed with the party consulted and implemented.

- External experts perform work that the PA will use for purposes of performing the professional service:
  - PA is still responsible for performing procedures to determine whether such work is adequate and can be used as sufficient appropriate evidence for the engagement.
  - AT members do not perform work to assist the PA to perform the professional service.

- Hence, external experts cannot directly influence the outcome of the engagement and are not part of the AT.
Questions/ Comments
Reservations from RT Participants

- The Code is not enforceable on experts
- The external expert might not even understand what the term ‘independence’ entails
- In emerging fields and geographies, there might be a minimal number of experts; assurance quality issues will likely arise if no experts are available
- It is unduly onerous, and almost impossible to monitor and control, if a firm’s system of quality management is extended outside its current scope to monitor the independence of external experts
- The onus is still on the assurance provider to ensure that the evidence from the external expert’s work is reliable and constitutes sufficient appropriate evidence
- Currently, ensuring objectivity (let alone independence) in a niche area or field is already challenging because there is a scarcity of experts available, and it is likely they are affiliated with the big interests in the related subject matter and/ or client companies
- Competence is more important than objectivity since there is a lack of expertise in the niche field or area
Support from RT Participants

- All external experts should be independent, like the ET or AT
- Think about the issue from the perspective of a reasonable, knowledgeable investor
  - External expert with financial ownership of, or relationships with, the company being assured would impact the credibility of the sustainability assurance report issued
  - Credibility would also be questioned if the external expert is an advocate concerning the subject matter being advised upon or had management roles in the company
- If an external expert is not independent, the assurance report should disclose that fact so that the report's users can decide on their reliance on such report
Suggestions from RT Participants

• Principles-based approach in determining whether the external expert is objective as the facts and circumstances will differ on a case-by-case basis

• Factors listed in the briefing note are all fair examples
  o Guides the assurance provider’s thought process about what should be considered when assessing the objectivity of an external expert
  o None of them should be a blanket prohibition with regards to independence for the external expert
  o 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 needs to address those threats before relying on the expert’s work

• Other factors to consider, such as funding of expert and nature of business activities of the controlling owner, fee dependency, how to obtain information regarding the interests and relationships of the expert, communication and transparency, etc.
TF Response

- If external experts are required to be independent according to Part 4 of the Code, this would imply that the proposed definition of external experts is captured under the definition of AT.
  - As per slides 7 and 9, external experts are not captured under the definition of AT or ET members.
  - The external expert cannot directly influence the outcome of the engagement because they only perform work which the ET needs to evaluate, through the performance of procedures, as to whether the external expert's work is adequate to use.
  - They are also not under the direction, supervision and review of the engagement partner.
TF Response

• TF is proposing to incorporate the application of relevant considerations to evaluate the objectivity of an external expert in Part 3 of the Code, based on Part 4 independence considerations, in order to allow the PA to reach a conclusion on the external expert’s objectivity
  o Balanced response to RT feedback
  o Builds on the acknowledgment that external experts are not AT members and cannot be monitored and supervised by the PA’s firm
  o Any application of independence considerations will have to be done through PAs and, in the case of sustainability assurance, other assurance providers as well
  o If a PA cannot satisfy themselves that the external expert is objective, measured against the relevant independence considerations drawn from Part 4, the PA cannot use the external expert’s work in the engagement
  o Therefore, this approach allows external experts to be measured against the same independence considerations as ET/AT members, but conducted as part of the PA’s responsibilities to evaluate the objectivity of an external expert
• Accordingly, the significant influence test is withdrawn
Questions/Comments
Proposed Strawman (1/2)

• Set out that using the work of an expert might create threats to the PA’s compliance with the FPs, particularly the principles of objectivity and PC&DC

• Outline circumstances in which the work of an expert might be used

• Detail the responsibilities of a PA when the PA intends to use the work of an expert
  o Determine whether the use is appropriate for the intended purpose
  o Evaluate the expert’s competence, capabilities and objectivity (CCO)
  o Conclude whether the use of the work of an expert is appropriate

• Detail a PA’s responsibilities when the PA is using the work of an expert
  o Evaluate the adequacy of the work of an expert
  o Provide examples of remedial actions if the work of an expert is deemed inadequate
  o Conclude whether the work of the expert can be used
Proposed Strawman (2/2)

• Set out that potential threats arising from using the work of an expert
  o Identifying, evaluating and addressing threats
  o Using the work of multiple experts in the same engagement
  o Transparency (and for Part 2, communication with TCWG)

• Documentation

• Others?
Questions/
Comments
Determining Who is an Appropriate Expert

- **Suggestions from RT Participants**
  - Whether the expert has an appropriate level of competence
  - The expert’s experience with, and level of understanding of, the subject matter at hand, particularly in emerging fields
  - Although an expert’s reputation and the existence of a proven track record is valuable in assessing whether the use of an expert is appropriate, these attributes will be challenging to assess in emerging fields
  - Availability of evidence to support the expert’s decisions and approach
  - 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

TF Response
- Incorporated into strawman
Proposed Responsibilities of the PA

Rationale

• Builds on the extant Code concept (R390.5)
• Responsive to suggestions from RT participants (R360.6)
• Explains why the PA’s evaluation of CCO is necessary to comply with the FPs

Responsibilities of All Professional Accountants

R390.5 When a professional accountant intends to use the work of an expert in providing a professional service, the accountant shall determine whether such use is appropriate for the intended purpose.

Considerations Relating to the Use or Continuing Use of an Expert

R390.6 If a professional accountant determines that the use of an expert is appropriate for the intended purpose, the accountant shall, in complying with the principle of professional competence and due care, evaluate the expert’s competence, capabilities and objectivity.

R390.7 If a professional accountant is considering using an external expert, the accountant shall also obtain an understanding of:

(a) The external expert’s business activities and relationships; and
(b) If the external expert is an entity, how it is funded and the identity and business activities of its controlling owner.
Proposed Evaluation of Competence

390.8 A1 Factors that are relevant in evaluating the competence of an expert include:

- If the expert is not a professional accountant, whether the expert is subject to professional, including ethics, standards of the expert’s profession.
- The expert’s knowledge, credentials, reputation and experience.
- Whether there are professional bodies or associations for experts in the field.
- Whether the expert belongs to a professional body and if so whether they are in good standing.
- The expert’s ability to explain the expert’s work and its appropriateness for the purpose intended.

[placeholder for additional guidance as to how the PA might evaluate the factors listed]

390.8 A2 If the expert has expertise in an emerging field or area, additional factors that are relevant in evaluating the competence of an expert include:

- The expert’s knowledge, experience or exposure to the emerging, or similar, field or area.
- [placeholder for additional factors]
Proposed Evaluation of Capabilities

390.8 A3 Factors to consider in evaluating the capabilities of an expert include:

- The resources available to the expert.
- Whether the expert has adequate time to perform their work.

[placeholder for additional guidance as to how the PA might evaluate the factors listed]

Rationale
- Responsive to RT feedback
- Aligned with ISAs
- Placeholder to provide guidance as to the PA's thought process on *how* to obtain information on such factors
390.8 A4 Factors that are relevant in evaluating the objectivity of an expert include: [placeholder to consider sub-headings to group similar factors below]

- If the expert is not a professional accountant, whether the expert is subject to professional, including ethics, standards of the expert’s profession.
- Whether the expert has a conflict of interest in relation to the work they will be performing.
- Whether the expert will evaluate or rely on any previous judgments made or activities performed by the expert in undertaking the intended work.
- Whether the expert has a long association with the client.
- Whether the expert has a material direct or indirect financial interest in the client.
- Whether the expert has made a loan or guarantee to the client.
- Whether the expert has accepted a loan or guarantee from a client that is a bank or similar institution that is not made under normal lending procedures, terms and conditions.
Proposed Evaluation of Objectivity (2/3)

- Whether the expert has a close business relationship with the client or its management that involves a material financial interest and the business relationship is significant to the client or its management.
- Whether the expert or their immediate family is, or was, a director or officer of the client, or an employee in a position to exert significant influence over the preparation of the client’s financial or non-financial information, or the records underlying such information, during the period covered by the information or the period of the professional service.

[placeholder for additional guidance as to how the PA might evaluate the factors listed. For example, requiring the accountant to obtain information (through inquiry or written representation) from the expert about its interests and relationships, and inquiring with the client whether it is aware of any interests and relationships with the expert.]

[placeholder for additional guidance as to the extent to which the factors listed (i.e., the “independence” constraints) should apply to external experts depending on various considerations such as the nature of the entity (PIE or non-PIE), the availability of experts, and the significance of the financial interests, business relationships, etc., and whether the application of any safeguards would reduce the threats created by using an expert’s work to an acceptable level.]
390.8 A5 In the case of an external expert, additional factors that are relevant in evaluating the objectivity of an expert include:

- Whether the expert has a material fee or contingent fee or dependency on fees or other types of remuneration from the client.
- Whether the expert’s employing organization has a material financial interest, loan or guarantee from, or material or significant business relationship with, the client.

**Rationale**

- Responsive to RT feedback
- Recognizes that independence requirements on external experts as they are not part of the AT and cannot be monitored, supervised or controlled by the firm
- Takes into account the independence considerations contained in Part 4, but in the context of the PA evaluating such considerations to reach a conclusion about the external expert’s objectivity, before the PA can use the external expert’s work
- Placeholder to provide guidance as to the PA’s thought process on how to obtain information on and weigh such factors
Proposed Conclusions Re Evaluations

R390.9 A professional accountant shall not use or continue to use an expert if the accountant has doubts about the expert’s:

(a) Competence;
(b) Capabilities; or
(c) Objectivity.

R390.10 In the case of an external expert, a professional accountant shall also not engage an external expert on a contingent fee basis.

Rationale
• Aligns with ISAs
Proposed Evaluation of the Expert’s Work

Evaluating the Work of an Expert

390.11 A1 Factors that are relevant in evaluating whether the work of an expert is appropriate for the intended purpose include:

- The purpose and scope of the expert’s engagement.
- The nature and intended use of the expert’s work.
- The degree of reliance that will be placed on the expert’s work.
- Whether the work of multiple experts is used.
- The oversight and controls relating to the use of the expert and the expert’s work.
- The complexity of the expert’s work and the professional accountant’s ability to understand and explain the expert’s work and its appropriateness for the purpose intended.
- The reasonableness of data inputs, assumptions, methods, findings or conclusions informing the basis of the expert’s work and whether potential bias has been mitigated.
- The consistency of the expert’s work with other information.
- Availability of academic research or other evidence to support the expert's approach.
- Whether the expert’s work is subject to technical performance standards or other professional or industry generally accepted practices.

Rationale

- Responsive to IESBA and RT feedback
Examples of remedial actions a professional accountant might take to respond to a determination that an expert’s work is not appropriate for the intended purpose include:

- Performing additional procedures appropriate to the circumstances.
- Agreeing with that expert on the nature and extent of further work to be performed by that expert.
- Consulting with appropriately qualified professionals to obtain additional input and challenge regarding the appropriateness of the expert’s work for the purpose intended.
- Using appropriately qualified professionals to obtain a second opinion on the expert’s work.
- Having an appropriate reviewer review the expert’s work.

A professional accountant shall not use the work of an expert if, after having taken any remedial actions, the accountant concludes that such work is inappropriate for the intended purpose.

[placeholder for consideration of confidentiality for external expert]
Questions/Comments
Other Key Proposals
Proposed Circumstances for Use of Experts

Rationale
• To set out the types of experts (390.4 A1)
• Responsive to IESBA and RT feedback to distinguish management’s expert (390.4 A1)
• To provide examples of when experts might be used (390.4 A2)

Circumstances in Which the Work of an Expert Might be Used

390.4 A1 In performing a professional service, a professional accountant might identify a need to use the work of an expert. An expert can be:

• An external expert.
• An expert employed by the firm.
• A management’s expert.

390.4 A2 Experts can be involved in many fields or areas of expertise, ranging from those that are emerging to those that are more well-established. Examples of work that experts might undertake include:

• The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
• The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
• The estimation of oil and gas reserves.
• The valuation of environmental liabilities, and site clean-up costs.
• The interpretation of contracts, laws and regulations, including tax laws and regulations.
• [Placeholder for technology-related examples]
• [Placeholder for sustainability-related examples]
Examples of facts and circumstances that might create threats for a professional accountant when undertaking a professional service involving the use of an expert’s work include:

(a) Self-interest threats
   - A professional accountant has insufficient understanding of the expert’s work.

(b) Self-review threats
   - A professional accountant was involved in developing the data used by the expert and the judgments the accountant exercised in developing that data might inform part of the expert’s work.

(c) Advocacy Threats
   - [placeholder]

(d) Familiarity threats
   - A professional accountant has used the work of the same expert for a long period of time.

(e) Intimidation threats
   - A professional accountant feels pressure to defer to the expert’s opinion due to the expert’s perceived authority.
Evaluating Threats

Factors that are relevant in evaluating the level of such threats include:

- The nature, scope, and objective of the intended use of the expert.
- The degree of responsibility the expert has over the data and inputs to its work.
- The degree of reliance by the professional accountant on the work of the expert.
- The nature of the engagement in which the expert’s work is being used.
- Whether the work of multiple experts is being used in the same engagement.
- The complexity and subjectivity of the experts’ work, including the reliability of the underlying data used.
- The degree of transparency over the inputs, assumptions and methodologies used by the expert.
- Whether the work of the expert is based on generally accepted standards or law or regulation such that the work if performed by two or more parties is not likely to be materially different.
- Whether there is pressure being exerted by the accountant’s employing organization or another party to accept the expert’s work due to the time or cost spent on it.
Addressing Threats

390.16 A1 Examples of actions that might be safeguards to address such threats include:

- Using appropriately qualified professionals who have the necessary knowledge, skills and experience to understand and evaluate the expert’s work.
- Having an appropriate reviewer review the work of the expert.
- Being transparent with senior management of the firm about the different positions on the outcome of the expert’s work taken by the accountant and the expert.

390.16 A2 Safeguards might not be available to reduce the threats created by using the work of an expert to an acceptable level. In such a situation, the application of the conceptual framework requires the professional accountant to:

(a) Adjust the scope of, or degree of reliance on, the expert’s work to eliminate the circumstances that are creating the threats; or

(b) Not use the work of the expert.
Multiple Experts

R390.15 When a professional accountant uses the work of more than one expert in the performance of a professional service, the accountant shall consider whether, in addition to the threats created by using each expert individually, the combined effect of using the work of the experts creates or impacts threats.

390.15 A1 In addition to paragraph 390.14 A1, factors that are relevant in evaluating the level of threats created by using the work of multiple experts include whether:

- The combined effect of using multiple experts increases the level of threat created by using the work of each expert assessed individually.
- The combined effect of using multiple experts increases the complexity of exercising professional judgment.
- The combined work of the experts forms a material part of the information assessed or used for purposes of the engagement.
Transparency

390.16 A3 Paragraph 113.3 details the professional accountant’s responsibilities in respect of the limitations inherent in the accountant’s professional activities. When using the work of an external expert, circumstances that might give rise to such limitations include:

- There is a lack of available information in relation to the factors to determine whether the use of such external expert is appropriate.
- The external expert has activities and relationships that might affect the external expert’s objectivity.

For Part 2 Only – Communication with Those Charged with Governance

390.17 A1 To facilitate effective oversight of an external expert that is engaged, the professional accountant is encouraged to communicate with those charged with governance:

- The purpose of engaging the external expert and the scope of the external expert’s work.
- The respective roles and responsibilities of the accountant and the external expert in the performance of the professional activity.
- Any potential conflicts of interest of the external expert.
Documentation

390.18 A1 The professional accountant is encouraged to document:

- The steps taken by the accountant to evaluate the expert’s competence, capabilities and objectivity, and the resulting conclusions.

- Any threats to the fundamental principles that are identified and evaluated to be at an unacceptable level.

- The actions taken to eliminate or reduce the level of threats identified to an acceptable level.

- For Part 2 Only – The results of the discussion with those charged with governance.

[placeholder to consider whether to require documentation, for example, especially in an audit engagement. To consider requirements similar to that in NOCLAR, i.e., requirement to document if audit, and encouraged if non-audit]
Questions/Comments
Next Steps
TF will further consider in Q3, among other matters:

- Development of section for PAIBs
- Development of section equivalent to S390 for profession-agnostic standards for new Part 5 for sustainability assurance engagements
- Addressing the use of other practitioners in sustainability assurance engagements who are not external experts and are not members of the ET or AT, as contemplated under draft ISSA 5000
## Next Steps

**Q3 2023 – Q1 2024**

<table>
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<tr>
<th>Timing</th>
<th>Next Steps</th>
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<tbody>
<tr>
<td>Sept 2023</td>
<td>• IESBA to consider first-read of proposed revisions</td>
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<tr>
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<td>• IESBA CAG to provide input</td>
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<tr>
<td>Oct/ Nov 2023</td>
<td>• Outreach with IFIAR SCWG &amp; IOSCO C1</td>
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<tr>
<td>Dec 2023</td>
<td>• IESBA to consider updated revisions following additional stakeholder input and Sept Board feedback</td>
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<tr>
<td></td>
<td>• IESBA consideration of approval of ED</td>
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<tr>
<td>Jan 2024</td>
<td>• Release of ED including explanatory memorandum</td>
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<tr>
<td>Apr 2024</td>
<td>• Deadline for IESBA ED responses assuming a 90-day comment period</td>
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Questions/Comments