PROPOSED NEW SECTION 390

USING THE WORK OF AN EXPERT

Introduction

390.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

390.2 Using the work of an expert might create threats to compliance with the fundamental principles, particularly the principles of objectivity and professional competence and due care.

390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the use of the work of an expert.

Requirements and Application Material

General

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]

1 To be mirrored in Part 2 as relevant.
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.

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]

390.8 A3 Factors that are relevant in evaluating the capabilities of an expert include:

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

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

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.

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.

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.

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.

390.11 A2 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.

R390.12 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]

Potential Threats Arising from Using the Work of Expert

Identifying Threats
390.13 A1 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

390.14 A1 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.

Using the Work of Multiple Experts in the Same Engagement

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.

**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.

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]

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## PROPOSED NEW AND REVISED DEFINITIONS

### GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Expert</td>
<td>An individual or organization that possesses expertise outside the professional accountant’s competence.</td>
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<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.</td>
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<td></td>
<td>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>
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<tr>
<td>Management’s Expert</td>
<td>An expert employed or engaged by a client.</td>
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