

Agenda Item 4-C (Updated-Approved)

Use of Experts Project – Part 3: Proposed Revisions and New Section (Mark Up from [Posted](#))

Note to IESBA:

Comment bubbles explain the key changes in mark-up from the posted December draft text.

SECTION 320

PROFESSIONAL APPOINTMENTS

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Requirements and Application Material

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[Extant paragraphs R320.10 and 320.10 A1 withdrawn]

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Other Considerations

320.11 A1 When a professional accountant is considering using the output of technology, a consideration is whether the accountant is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

320.11 A2 When a professional accountant intends to use the work of an [external](#) expert, the requirements and application material set out in Section 390 apply.

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PROPOSED NEW SECTION 390

USING THE WORK OF AN EXTERNAL 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 external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, 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 using the work of an external expert.

Requirements and Application Material

General

- 390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if a professional accountant performs a professional service for which the accountant has insufficient expertise.
- 390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.
- 390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by a professional accountant. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
 - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans .
 - The calculation of greenhouse gas emissions.
 - The measurement of pollutants emitted to air, water and soil.
 - The valuation of products and materials designed along principles for a sustainable economy.
 - The estimation of oil and gas reserves.
 - The interpretation of contracts, laws and regulations, including tax laws and regulations, tax treaties and bilateral agreements.
 - Assessment and evaluation of IT systems, including those related to cybersecurity systems.

Commented [KL1]: Added, as otherwise using an external expert who is not CCO, is not a safeguard

Commented [KL2]: Valuation of financial instruments (i.e., the measurement) is different from the accounting of financial instruments (i.e., in accordance with IFRS 9).

Since the definition of external expert for audit engagements is expertise other than accounting and auditing; the example of accounting for FI and carbon credits was not included in S390 as it is for PAPPs.

In S590, the definition of external expert for assurance/SAEs is expertise other than assurance; hence an external expert could be engaged to provide accounting expertise, and the example of accounting for FI and carbon credits is included.

Commented [KL3]: Responsive to IESBA member comment to use "IT" instead of cyber. Proposed wording aligns with the technology revisions in s606.

390.4 A4 This section does not apply to:

- (a) The use of the work of an expert employed or engaged by the client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management; and
- (b) The use of information provided by individuals or organizations that are external information sources for general use. Such individuals or organizations are not experts. They include, for example, those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

Commented [KL4]: Responsive to IESBA participant comment that there could be organizations that value non-tradable assets using proprietary knowledge, i.e., that specialised valuation is done by experts. However, they are not experts engaged by the PA to perform bespoke work, and hence not in the scope of this section. Since the lead-in is already clear that information provided for general use (i.e., including information from data providers such as S&P) is not in the scope of this section, the TF has withdrawn this sentence. To include explanation in EM.

Agreeing the Terms of Engagement with an External Expert

All Professional Services

R390.5 If the professional accountant has identified an external expert to use for a professional service, the accountant shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

- (a) The nature, scope and objectives of the work to be performed by the external expert; and
- (b) In the context of audit or other assurance engagements, the provision of information needed from the external expert for purposes of assisting the accountant's evaluation of the external expert's competence, capabilities and objectivity.

390.5 A1 In agreeing the terms of engagement, matters that the professional accountant might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's general approach to the work.
- Expectations regarding confidentiality of the external expert's work and the inputs to that work.
- The expected content and format of the external expert's completed work, including any assumptions made and limitations to that work.
- Expectations regarding the external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the client, or those working for or under the direction of the client, of which the external expert becomes aware when performing the work.

Evaluating the External Expert's Competence, Capabilities, and Objectivity

All Professional Services

R390.6 The professional accountant shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose.

390.6 A1 A self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a professional

Commented [KL5]: EM to emphasize that the evaluation process requires the exercise of professional judgment to weigh all factors of CCO against the facts and circumstances.

accountant uses an external expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service.

390.6 A2 Factors that are relevant in evaluating the competence of the external expert include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body and, if so, whether the external expert is in good standing.
- Whether the external expert's work is subject to professional standards issued by a recognized body, or follows generally accepted principles or practices, in the external expert's field or area of expertise.
- Whether the external expert can 's ability to explain their work, including the inputs, assumptions, and methodologies used and conclusions of the external expert's work.
- Whether the external expert has a history track record of performing similar work for the professional accountant's firm or other clients.

Commented [KL6]: Responsive to IESBA member and participant comment that this factor might be better placed in the evaluation of CCO instead, since if the external expert cannot explain their work, it is questionable whether they are appropriately competent.

Commented [KL7]: See proposed term to replace "track record." Responsive to IESBA member comment to use another term.

390.6 A3 Factors that are relevant in evaluating the capabilities of the external expert include:

- The resources available to the external expert.
- Whether the external expert has sufficient time to perform the work.

390.6 A4 Factors that are relevant in evaluating the objectivity of the external expert include:

- Whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise – a professional body in the external expert's field or area of expertise.
- Whether the external expert or their employing organization has a conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the professional accountant knows or is aware of any bias that might affect the external expert's work.
- Whether the external expert will evaluate or rely on any previous judgments made or activities performed by the external expert or their employing organization in undertaking the work.

Commented [KL8]: Change as suggested by IESBA member to acknowledge that ethics standards could be coming from a professional body, national standards setter or regulator.

Commented [KL9]: For clarity. In some instances, the external expert's organization might consist of multiple legal entities.

390.6 A5 Examples of previous judgments made or activities performed by an external expert or their employing organization that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information for the entity which is then used by the external expert in performing the work or is the subject of that work.

390.6 A6 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.
- Inquiry of others within or outside the professional accountant's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- Inquiry of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a recognized publisher or in a recognized journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Inquiry of the client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the professional accountant's firm.

Audit or Other Assurance Engagements

390.7 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in an audit or other assurance engagement. Therefore, paragraphs R390.8 to R390.11 set out further actions in evaluating the objectivity of an external expert in an audit or other assurance engagement pursuant to paragraph R390.6.

R390.8 The professional accountant shall request the external expert to provide, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the audit or assurance report and the engagement period, information about:

- (a) Any direct financial interest or material indirect financial interest held by the external expert, their immediate family, or the external expert's employing organization in the entity;
- (b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing organization, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;
- (c) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;
- (d) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;

Commented [KL10]: TF notes the IESBA discussion regarding whether a PA "uses" or "relies" on the work of an external expert. The use of the term "use" aligns with the IAASB standards. To include explanation in the EM, and also point to a PA's performance responsibilities in the ISAs if the work of two experts meeting CCO is contradictory.

- (e) Any close business relationship between the external expert, their immediate family, or the external expert's employing organization and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is insignificant to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity or its management;
- (f) Any previous or current engagements between the external expert or their employing organization and the entity;
- (g) How long the external expert and their employing organization have been associated with the entity;
- (h) Any position as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information, or the records underlying such information:
 - (i) Held by the external expert or their immediate family;
 - (ii) Held or previously held by the external expert before the period covered by the audit or assurance report; or
 - (iii) Held or previously held by management of the external expert's employing organization;
- (i) Any previous public statements by the external expert or their employing organization which advocated for the entity;
- (j) Any fee or contingent fee or dependency on fees or other types of remuneration due to or received by the external expert or their employing organization from the entity;
- (k) Any benefits received by the external expert, their immediate family or the external expert's employing organization from the entity;
- (l) Any conflict of interest the external expert or their employing organization might have in relation to the work the external expert is performing at the entity; and
- (m) The nature and extent of any interests and relationships between the controlling owners of the external expert's employing organization and the entity.

Commented [KL11]: Responsive to IESBA member comment that there is not always has a FI (as per S520)

Commented [KL12]: Added in response to IESBA member suggestion to consider the external expert's organization

Commented [KL13]: Change to acknowledge IESBA member comment that it seems relevant to know about previous roles (not limited by a period of time) to assess the totality of the facts and circumstances, such as the next bullet.

R390.9 Where the external expert uses a team to carry out the work, the professional accountant shall request the external expert to have all members of the external expert's team provide the information set out in paragraph R390.8, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the audit or assurance report and the engagement period, ~~the information set out in paragraph R390.8~~.

Commented [KL14]: Edit as suggested by IESBA member

R390.10 The professional accountant shall request the external expert to communicate any changes in facts or circumstances regarding the matters set out in paragraph R390.8 that might arise during the period covered by the audit or assurance report and the engagement period.

Commented [KL15]: Edit as suggested by IESBA member, to use "and" to be consistent with R390.8 and R390.9

R390.11 Where the client is not the entity at which the external expert is performing the work, the professional accountant shall also request the external expert to disclose, in relation to the period covered by the audit or assurance report and the engagement period, information about

interests, relationships or circumstances of which they are aware between the external expert, their immediate family or the external expert's employing organization and the client.

390.11 A1 Examples of interests, relationships or circumstances between the external expert and the client that might be included in the evaluation of the external expert's objectivity include:

- Any direct financial interest or material indirect financial interest in the client held by the external expert, their immediate family, or the external expert's employing organization.
- Any interests or relationships of the external expert, their immediate family or the external expert's employing organization with the client and those entities over which it has direct or indirect control.
- Any conflicts of interest the external expert, their immediate family or the external expert's employing organization might have with the client.

390.11 A2 Information about interests, relationships or circumstances between an external expert or their employing organization and the client might be obtained from inquiry of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client ~~does not undermine the intended purpose of the professional accountant in using the work of the external expert.~~

Commented [KL16]: TF noted the suggestion by an IESBA member to consider adverse interests, i.e. lawsuits against or for. The TF notes that this is already inherently part of conflicts of interests (i.e., para 310.4 A1 of extant Code). This will be explained in the EM with the examples in para 310.4 A1 included as relevant.

Commented [KL17]: Responsive to IESBA participant suggestion to clarify wording to better reflect the TF's intent

All Professional Services

R390.12 The professional accountant shall not use the work of the external expert if:

- (a) The accountant is unable to obtain the information needed for the accountant's evaluation of the external expert's competence, capabilities and objectivity; or
- (b) The accountant determines that the external expert is not competent, capable or objective.

Commented [KL18]: TF noted suggestion by an IESBA member to revisit this prohibition because:
1) ISA 620 allows for additional procedures to be done
2) in some jurisdictions, there might not be experts that meet CCO, leading to a lack of experts that can be used

However, the TF observes (also confirmed with coordination with IAASB staff) that:
1) ISA 620 is silent on whether one can use an expert if not CCO, the additional procedures are wrt to if the work of expert is not deemed sufficient appropriate evidence.
2) the bar of CCO cannot be lowered to accommodate a lack of experts, also recognizing the heightened public interest expectations of stakeholders

To include explanation in EM.

Potential Threats Arising from Using the Work of an External Expert

All Professional Services

390.13 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a professional accountant has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose.

Identifying Threats

390.14 A1 Examples of facts and circumstances that might create threats to a professional accountant's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
 - A professional accountant has insufficient expertise to understand and explain the external expert's conclusions and findings.
 - A professional accountant has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional service.

Commented [KL19]: TF considered suggestion from IESBA member about whether there should be a threat w.r.t. to hiring an incompetent expert, however, notes that the point of the CCO evaluation is to prohibit the use of an external expert's work if it is not competent.

- A professional accountant has insufficient time or resources to evaluate the external expert's work.
- (b) Advocacy threats
 - A professional accountant promotes the use of an external expert who has known bias towards conclusions ~~which are favorable to~~ potentially advantaging or disadvantaging the client.
- (c) Familiarity threats
 - ~~A professional accountant has used the work of the same external expert for a long period of time or in multiple professional services. has a close personal relationship with the external expert.~~
- (d) Intimidation threats
 - A professional accountant feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.

Commented [KL20]: TF notes IESBA member comment that the risk is from unknown bias. However, being aware of unknown bias is already part of the conceptual framework, and thus no change. Additionally, in terms of identifying a threat, there would be implementation challenges in identifying a bias which is unknown.

Commented [KL21]: Responsive to IESBA member comment that conclusions could be favorable or unfavorable.

Commented [KL22]: See proposed new example, responsive to IESBA member comment that the previous example seemed to suggest that a PA could not use an external expert, who is CCO, multiple times/over a long period.

Evaluating Threats

390.15 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the professional accountant's engagement.
- The nature of the professional service ~~in for~~ which the external expert's work is intended to be used.
- The professional accountant's oversight relating to the use of the external expert and the external expert's work.
- ~~The external expert's ability to explain the inputs, assumptions, methodologies and conclusions of the external expert's work.~~
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The professional accountant's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the professional accountant's firm to accept

Commented [KL23]: Moved to para 390.6 A2

the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

Addressing Threats

390.16 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

390.16 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel who have the necessary expertise and experience to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with the client additional time or resources to complete the engagement.

Other Matters

External Experts in Emerging Fields or Areas

390.17 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

390.17 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the professional accountant in evaluating an external expert's competence is the external expert's experience in a similar field [as to](#) the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

Using the Work of Multiple External Experts

R390.18 When a professional accountant uses the work of more than one external expert in the performance of a professional service, the accountant shall consider whether, in addition to the threats that might be created by using each external expert individually, the combined effect of using the work of the external experts might create additional threats or impact the level of threats.

Inherent Limitations in Evaluating an External Expert's Competence, Capabilities or Objectivity

390.19 A1 Paragraph R113.3 sets out communication responsibilities for the professional accountant with respect to limitations inherent in the accountant's professional services. When using the work of an external expert, such communication might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

Communicating with Management and Those Charged with Governance When Using the Work of an External Expert

390.20 A1 The professional accountant is encouraged to communicate with management, and where appropriate, those charged with governance:

- The purpose of using an 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 service.
- Any threats to the accountant's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

Documentation

390.21 A1 The professional accountant is encouraged to document:

- The results of any discussions with the external expert.
- The steps taken by the accountant to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the accountant in using the external expert's work and the actions taken to address the threats.