

Meeting: IESBA CAG

Meeting Date: September 11, 2023

Agenda Item

G3

Report - Back

Use of Experts

Objectives of Agenda Item

1. To receive a report back on the September 2023 CAG discussion.

Task Force

2. Members:
 - Laurie Endsley, Chair, IESBA Vice-Chair
 - Saadiya Adam, IESBA Member
 - Sanjiv Chaudhary, IESBA Member
 - Andrew Mintzer, IESBA Member
 - Luigi Nisoli, IESBA Member

Project Status since September 2023 and Timeline

3. During the [December 2023](#) meeting, the Experts Task Force presented the IESBA with a final read of the proposed exposure drafts for approval.

Report Back on September 2023 CAG Discussion

4. [Appendix 1](#) to this paper includes extracts from the draft minutes of the September 2023 CAG meeting¹ and an indication of how the Experts Task Force or IESBA has responded to CAG Representatives' comments.

¹ The draft minutes will be circulated to CAG representatives for their offline comments and will be shared with CAG Chair subsequently.

Appendix 1

5. Subsequent to the September 2023 IESBA CAG session, the Use of Experts Task Force has refined the scope of the proposed provisions to focus on external experts only (i.e., those engaged by a firm or employing organization). This is responsive to the September 2023 IESBA feedback concerning (a) clarifying whether the proposed provisions apply to engagement team and audit/assurance team members, and (b) questions over the rationale for applying the proposed provisions to experts employed by a firm who are used for non-assurance services (NAS) engagements, since these individuals would already be subject to the firm's internal policies and procedures for hiring and resource allocation as well as compliance with the provisions of the Code.
6. Below are extracts from the draft minutes of the September 2023 IESBA CAG session² and an indication of how the Task Force or the IESBA has responded to the CAG's comments.

Matters Raised	Task Force/ IESBA Response
EVALUATING THE OBJECTIVITY OF EXTERNAL EXPERTS USED IN AN AUDIT OR OTHER ASSURANCE ENGAGEMENT	
<p>Mr. Hansen questioned whether the proposed approach would prohibit using an external expert who is not objective in an audit or other assurance engagement. He also questioned whether such an expert could still be used, similar to the work of a management's expert.</p>	<p>Point considered.</p> <p>Under the proposed approach, the work of an external expert cannot be used in an audit or other assurance engagement unless the professional accountant (PA) or sustainability assurance practitioner (SAP) has evaluated the external expert against the Code's independence attributes and satisfactorily concluded that the expert is objective.</p> <p>This brings the necessary rigor of "independence" through the lens of objectivity to external experts used in audit and other assurance engagements to meet the heightened public interest expectations relating to an external expert used in an audit or other assurance engagement.</p> <p>If the PA or SAP determines that the expert is not objective and the PA or SAP continues, or proceeds, to use such an expert, the PA or SAP would not be complying with the Code.</p> <p>The proposed provisions do not address using the work of a management's expert. Under ISA 500,³ the work of a management's expert is deemed to be other information received from management for the audit or other assurance engagement purposes.</p>

² The IESBA CAG will be asked to approve the draft September 2023 CAG session minutes separately.

³ International Standard on Auditing (ISA) 500, *Audit Evidence*

Matters Raised	Task Force/ IESBA Response
	ISA 500 sets out the performance responsibilities of the PA in determining whether the work of a management's expert constitutes sufficient appropriate evidence.
Mss. Blomme and Riggs and Drs. Norberg and Orth expressed support for the focus on evaluating the objectivity of external experts used in an audit or other assurance engagement.	Support noted.
Ms. Blomme also encouraged the Task Force to consider whether the independence attributes that the PA or SAP will be required to evaluate in relation to the external expert is a balanced list from a cost-benefit perspective, considering that many experts might not be able to meet the independence attributes set out in the proposed approach. She highlighted that achieving this balance would be important in practice to avoid unduly constraining the supply and use of external experts.	Points considered. The Task Force has deliberately factored proportionality and implementability into the proposed approach regarding the PA's or SAP's evaluation of the external expert's objectivity through the independence attributes. This is because the objectivity evaluation is based on the specific facts and circumstances of the external expert in relation to each independence attribute, rather than introducing blanket prohibitions in relation to each independence attribute.
Dr. Norberg observed that with sustainability reporting in the EU now being mandatory, it is likely that there would be a high demand for expertise and, inevitably, a shortage of experts in the early reporting cycles. He noted that it would be challenging for PAs or SAPs to decide whether to use an external expert for a sustainability assurance engagement who has the expertise but is not objective. He also observed that this might be the case for certain niche sectors, such as oil and gas.	Therefore, applying the Code's Conceptual Framework, the PA or SAP must exercise professional judgment when performing the evaluation, including weighing how the facts and circumstances pertaining to each independence attribute impact the PA's or SAP's overall conclusion with respect to the objectivity of the external expert. The criticality of a sound exercise of professional judgment will be emphasized and explained in the explanatory memorandum.
Dr. Orth and Ms. Riggs commented that it would be important to consider the significance of the expert's work on the engagement, given that it is likely that there will be only a few experts available in some sectors. For example, if the expert's work is significant, there might be some benefit to	In relation to circumstances where there might be a limited number of external experts in a particular jurisdiction or field of expertise, the Task Force is of the view that an external expert's competence, capabilities and objectivity cannot be less relevant or lower in jurisdictions or fields with a limited number of external experts. The Task Force notes that where it is determined that there are no external experts available in a particular field or jurisdiction,

Matters Raised	Task Force/ IESBA Response
<p>using an expert even with some limitations to the expert's objectivity.</p>	<p>the PA or SAP could consider:</p> <ul style="list-style-type: none"> • Using an external expert from another jurisdiction. • Consulting with the appropriate regulatory or professional body and ascertain the proper next steps. <p>The Task Force also observes that limitations in the availability of external experts are a matter of timing as the market capacity will gradually adjust to meet the demand. Therefore, the Task Force will consider, post-exposure, whether to develop appropriate transitional provisions while being cognizant of the need not to lower the bar regarding an external expert's competence, capabilities and objectivity.</p>
<p>Mr. Ishiwata observed that the extent of use of external experts in a sustainability assurance engagement depends on the topic and related disclosure requirements. Hence, he supported the development of provisions in a principles-based manner. He suggested that such provisions could be reviewed from a post-implementation perspective.</p>	<p>Support and suggestion noted.</p>
<p>Mr. Hansen observed that an expert could be an expert witness providing litigation support. He questioned how the PA or SAP could ensure that the expert is entirely objective and not an advocate.</p>	<p>A firm is providing a NAS if it provides a litigation service to a client.</p> <p>Sub-section 607 of the Code addresses circumstances where the firm provides a litigation service to an audit client, such as when a professional within the firm gives evidence as an expert witness. Specifically, the advocacy threat created when acting as an expert witness on behalf of an audit client is at an acceptable level if a firm or a network firm is: (a) appointed by a tribunal or court to act as an expert witness in a matter involving a client; or (b) engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided certain criteria set out in paragraph 607.7 A3 are met.</p> <p>If such NAS is not being provided to an audit client,</p>

Matters Raised	Task Force/ IESBA Response
	and the firm engages an external expert to give evidence as an expert witness, the firm must evaluate the external expert's competence, capabilities and objectivity in accordance with the proposed provisions.
Mr. Hansen further asked how a PA or SAP would decide which expert to use when two separate experts are considered, with the outputs of each expert being different, yet both experts having been determined to be competent, capable, and objective.	The Task Force notes that such a scenario is hypothetical as it suggests that the PA or SAP is "opinion shopping." Nevertheless, in relation to having two experts who are both deemed to be competent, capable, and objective, but where the output of each expert is different, the PA or SAP's duty to evaluate the outputs of each expert is no different from what they must do under the IAASB's auditing or assurance standards to ensure that they can reliably use the expert's work.
Mr. Kabwe questioned if the proposed approach also covers experts used in reporting.	The scope of the proposed provisions also covers the use of the work of external experts in reporting.
Mr. Lawal Danbatta questioned if generative artificial intelligence (AI) is considered an expert and whether the proposed approach would cover the outputs of AI used as an expert.	The Task Force view is that AI is not an expert. The output of AI is akin to the output of any other technology. The PA is responsible for evaluating the threats to compliance with the fundamental principles that might arise from using the output of technology, as set out in the recent technology-related revisions to the Code. This matter will be explained in the explanatory memorandum.
Mr. Lawal Danbatta also questioned whether the proposed approach would include guidance concerning the "risk" of using the work of an external expert.	<p>Concerning the "risk" of using the work of an external expert, the Task Force notes that this consideration is inherent in the PA's or SAP's exercise of professional judgment when applying the proposed provisions. In the case of an audit or assurance engagement, the relevant auditing or assurance standards contain requirements for the PA or SAP to evaluate the work of the external expert to determine whether it can be used for the engagement. The risks would be managed through that evaluation process.</p> <p>In the case of a NAS engagement or in relation to reporting activities, the PA or SAP would be</p>

Matters Raised	Task Force/ IESBA Response
	required to comply with the fundamental principle of professional competence and due care. This will entail exercising due care with respect to evaluating the expert's work before deciding to use it, and thereby helping to manage the risks.
Mr. Hansen questioned if an expert is always an individual or if it could be an organization.	An external expert could be either, recognizing that individuals will always be involved even if the external expert is an organization.
Mr. Greene noted that an expert can be objective but not necessarily independent and that if the expert is not independent, there is a high risk it impacts the expert's objectivity. Therefore, if an expert is not independent, this would impact objectivity in appearance. In light of this, he questioned whether using the work of an external expert is similar to using the work of a client's internal audit function, that is, the PA or SAP needs to test the expert's work before they can use such work.	<p>Point noted.</p> <p>The Task Force acknowledges that the appearance of an expert's objectivity is a judgment area as it is subject to the PA's or SAP's evaluation. A PA's or SAP's performance responsibilities regarding using an expert's work are set out in ISA 620⁴ and the proposed ISSA 5000.⁵</p>
<p>Ms. Peters echoed Mr. Greene's comment and questioned the difference between an audit team member and an external expert.</p> <p>She further asked if there were many views expressed by users of financial statements in the roundtables and whether, in their perspective, the evaluation of an expert's objectivity meets the public interest expectation.</p>	<p>Point noted.</p> <p>The Task Force will include an explanation regarding the difference between an audit team member and an external expert in the explanatory memorandum.</p> <p>In relation to the feedback received from investors and other users at the global roundtables, some believed that independence should be required of external experts, while others believed that using an external expert who has expertise is the priority even if they are not objective.</p> <p>The Task Force will analyze the feedback received from respondents to the exposure draft and further outreach, including feedback from users, to determine whether the evaluation of an external expert's objectivity meets the public interest</p>

⁴ ISA 620, *Using the Work of an Auditor's Expert*

⁵ Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

Matters Raised	Task Force/ IESBA Response
	expectation.
<p>Ms. Peters also questioned whether the Task Force had considered transparency concerning the use of an expert. For example, she wondered whether a user would know about the PA's or SAP's determination of whether the expert is objective and how significant the expert's work is to the engagement.</p>	<p>The proposed provisions encourage communication with those charged with governance or management regarding the use of an external expert.</p> <p>If a PA or SAP uses an expert who is not objective, the PA or SAP would not be complying with the Code. However, it is within the remit of the IAASB's standards to address how, if at all, this should be disclosed in the PA's or SAP's report or how it impacts the PA's or SAP's opinion.</p> <p>Finally, the Task Force has also considered transparency as a safeguard to mitigate the threats created by using the work of an expert who is not objective. However, the Task Force's view is that introducing transparency as a mitigating action for objectivity could create an "easy out" and shift the burden and responsibility to evaluate the objectivity of an external expert from the PA or SAP to stakeholders.</p> <p>The Task Force also notes that it is a given that the external expert's work is influential to the engagement, otherwise such an expert would not be engaged.</p>
PROPOSED NEW AND REVISED DEFINITIONS	
<p>Dr. Orth highlighted the importance of contemporaneous revisions to both the IAASB's and IESBA's standards, especially regarding definitions such as for the term "expertise." He noted that having two different definitions of the same term would confuse auditors.</p>	<p>Points noted.</p> <p>Specifically, in developing the draft proposals, the Task Force coordinated with representatives from the IAASB to maintain alignment and interconnectivity between the two Boards' standards as they relate to using the work of an external expert. The discussions focused on (a) avoiding conflicts between the proposals and ISA 620 and other relevant IAASB standards; (b) making sure that the proposed ethics provisions do not include requirements related to the performance of audit or assurance procedures; and (c) the potential for any consequential/conforming amendments to the relevant IAASB standards.</p>
<p>Ms. Riggs noted that ensuring consistency with the IAASB standards, including with proposed ISSA 5000, and resolving or providing clear rationales for any differences would be critical.</p>	

Matters Raised	Task Force/ IESBA Response
	<p>In this regard, IAASB Staff have provided comments and suggestions in relation to the draft proposals in the proposed new Section 390. Additionally, the IAASB has committed, in its Strategy and Work Plan 2024-2027, to revise relevant IAASB standards for potential consequential and conforming amendments as a result of the IESBA's finalization of the provisions related to the Use of Experts Project. They will also take into account any resulting impact to proposed ISSA 5000 during the finalization of that standard.</p>
<p>Messrs. Sobel and Lawal Danbatta questioned why internal auditors are expressly excluded from the definition of an expert. Mr. Dalkin agreed with the concept of excluding internal auditors from the definition of an expert, but expressed concern that, as drafted it might raise questions.</p>	<p>Point addressed. The definition of an expert includes only those individuals who have knowledge and skills outside the PA's or SAP's competence. A PA's or SAP's competence may encompass knowledge and skills common to internal auditors, especially in the assurance area.</p>