

# Using the Work of an External Expert

IESBA Meeting | June 10-13, 2024

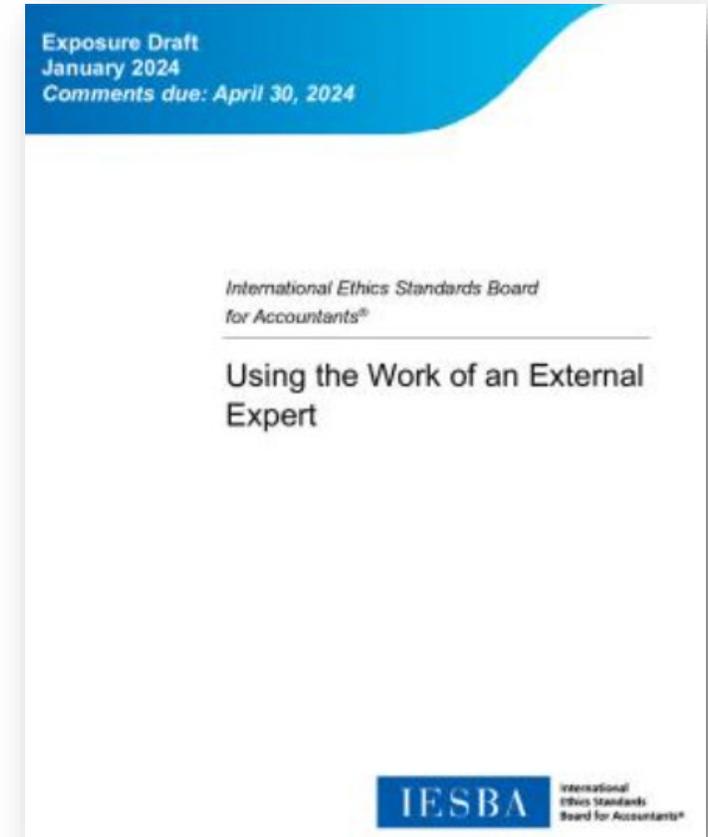
Laurie Endsley, IESBA Vice-Chair and Use of Experts Task Force Chair

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# Experts ED – Review of H1 2024

## ED Released January 29, with Sustainability ED

- Feb/Mar – Webinar(s) held
  - IESBA Global Webinar
  - UNCTAD International Standards of Accounting and Reporting and UNCTAD African Regional Partnership (w/ Sustainability)
  - South African Institute of Chartered Accountants (w/ Sustainability)
- Apr – Outreach with Preparers/TCWG and Regulator
  - Seminar w/ CPA Canada Public Trust Committee, and Sustainability Advisory Committee (w/ Sustainability)
  - IFIAR Standards Coordination Working Group (w/ Sustainability)
- Apr – Outreach with Investors
  - 6 virtual meetings with 21 individuals from 14 investor organizations



# Consideration of the Public Interest Framework

“Different classes of stakeholders can have legitimate interest in the adequacy of any given standard... For the purposes of the PIF, five broad groups of stakeholders are considered:

- Users of Financial Statements (investors)
- Profession (auditors, assurance practitioners, PAs)
- Those in charge of adoption, implementation and enforcement (NSS, PAOs, Public Sector, Regulators and other Authorities)
- Preparers (TCWG, management accountants, PAIBs)
- Other users (prudential authorities, central banks, etc)

**The public interest therefore requires weighing and balancing all stakeholder views.** While the PIF recognizes the importance of all of the above stakeholders, **it focuses primarily on the interests of users,** and more specifically the longer-term interests of creditors and investors and the protection of those interests.

Creditor and investor decisions are key to the correct functioning of financial markets, but there are creditors and investors who may not always be equipped to contribute effectively to the standard-setting process.”

# Experts ED – Additional Outreach

**Purpose: To gain input into other legitimate interests in the adequacy of the Experts ED proposals**

## **INVESTORS (21 individuals from 14 organizations)**

- World Federation of Exchanges
- World Bank
- International Finance Corporation
- Council of Institutional Investors
- Credicorp Ltd.
- Daiwa Institute of Research Ltd.
- Investment Company Institute
- Impax Asset Management
- State Street Global Advisors
- CFA Institute
- Olive Tree Estates Limited
- Securities Investors Association (Singapore)
- Malaysian Industrial Development Finance Berhad
- ESG Matters ApS

## **PREPARERS/TCWG (12 individuals from 8 organizations)**

- Alta Gas
- Arc Resources
- Canfor
- First Nations Financial Management Board
- Nutrien
- Pembina
- TC Energy
- Telus

# Experts ED – Stakeholder Input (1/2)

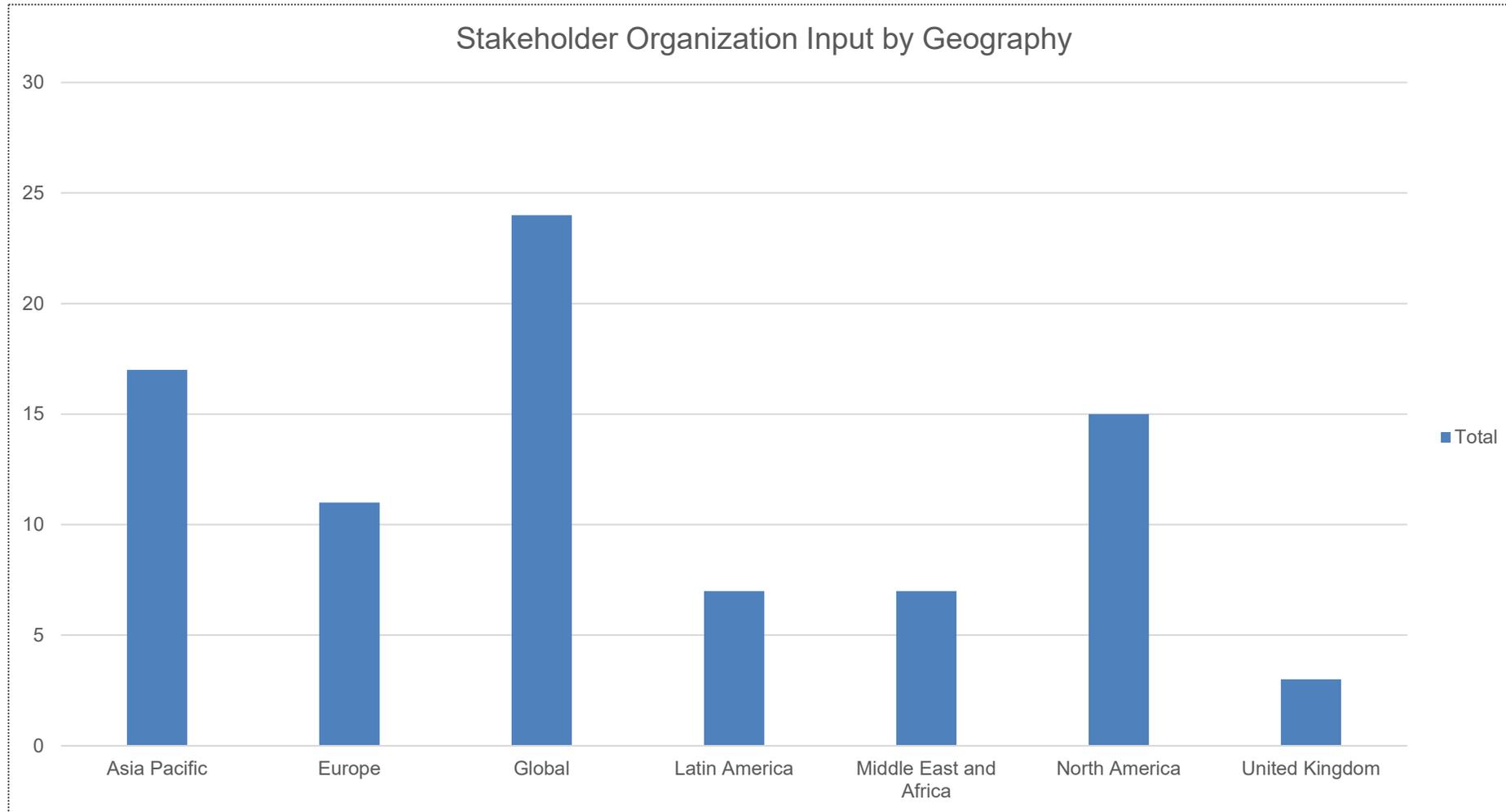
**Table 1: Individual Stakeholder Input**

<b>Stakeholder Category</b>	<b># Individual Stakeholders *^</b>
Academia and Research Institutes	2
Accounting Firms and Sole Practitioners	13
Independent Standard Setters	2
Investors and Other Users	22
Preparers and TCWG	12
Professional Accountancy Organizations	30
Public Sector Organizations	2
Regulators and Oversight Authorities	5
<b>Total</b>	<b>88</b>
<i>* Excludes global or regional umbrella organizations of other organizations</i>	
<i>^ Includes additional outreach with investors and preparers/TCWG</i>	

**Table 2: Umbrella Organization Stakeholder Input**

<b>Stakeholder Category</b>	<b># Stakeholders (Umbrella Organizations) *</b>
Professional Accountancy Organizations (IFAC, GAA, AE)	3
Investors and Other Users (WFE)	1
Regulators and Oversight Authorities (IOSCO, CEAOB, NASBA)	3
<b>Total</b>	<b>7</b>
<i>* Late submission from IFIAR expected</i>	

# Experts ED – Stakeholder Input (2/2)



# Recap – Experts ED Proposed Ethical Framework

## Definitions Introduced for “Expert” and “Expertise”

- Distinguish the work of experts from the work of other individuals or organizations providing information for general use

## Evaluating Whether to Use Work of An Expert

- Focused on expert’s competence, capabilities and objectivity (CCO)
- Work of an expert cannot be used if it does not meet CCO requirements

## External Experts in Audit or Assurance Engagements

- Additional objectivity requirements to evaluate interests and relationships based on independence attributes (financial interests, business relationships, etc)

## Potential Threats When Using the Work of an Expert

- Provisions to guide identifying, evaluating and addressing potential threats to compliance with the fundamental principles

Robust and balanced approach to address public interest expectations

### Development of Proposals Informed By:

Global Roundtables

NSS

Forum of Firms

Liaison with IAASB

IESBA CAG

# Recap – Experts ED Specific Questions

## Specific Questions Posed in ED

Q1 – Definitions of Expert, Expertise, External Expert

Q2 – CCO Approach

Q3 – Prohibition if External Expert is not CCO

Q4 – Objectivity Requirements for Audit/Assurance

Q5 – Threats to Compliance with the FPs



# Preliminary Overview of ED Comment Letters <sup>(1/5)</sup>

## Question 1: Definitions of Expert, Expertise, External Expert

Stakeholder Category	Agree	Agree with Comments/ Mixed Views	Disagree	No Specific Comment	Total
Academia and Research Institutes	1	0	1	0	2
Accounting Firms and Sole Practitioners	2	7	2	2	13
Independent Standard Setters	0	2	0	0	2
Investors and Other Users	0	0	0	2	2
Professional Accountancy Organizations	4	22	2	5	33
Public Sector Organizations	1	1	0	0	2
Regulators and Oversight Authorities	2	5	0	1	8
<b>Total</b>	<b>10</b>	<b>37</b>	<b>5</b>	<b>10</b>	<b>62</b>
	<b>16%</b>	<b>60%</b>	<b>8%</b>	<b>16%</b>	<b>100%</b>

# Preliminary Overview of ED Comment Letters (2/5)

## Question 2: CCO Approach

Stakeholder Category	Agree	Agree with Comments/ Mixed Views	Disagree	No Specific Comment	Total
Academia and Research Institutes	0	2	0	0	2
Accounting Firms and Sole Practitioners	0	10	1	2	13
Independent Standard Setters	0	2	0	0	2
Investors and Other Users	0	1	0	1	2
Professional Accountancy Organizations	5	17	6	5	33
Public Sector Organizations	2	0	0	0	2
Regulators and Oversight Authorities	1	4	0	3	8
<b>Total</b>	<b>8</b>	<b>36</b>	<b>7</b>	<b>11</b>	<b>62</b>
	<b>13%</b>	<b>58%</b>	<b>11%</b>	<b>18%</b>	<b>100%</b>

# Preliminary Overview of ED Comment Letters <sup>(3/5)</sup>

## Question 3: Prohibition if External Expert is not CCO

Stakeholder Category	Agree	Agree with Comments/ Mixed Views	Disagree	No Specific Comment	Total
Academia and Research Institutes	1	0	0	1	2
Accounting Firms and Sole Practitioners	2	5	4	2	13
Independent Standard Setters	1	1	0	0	2
Investors and Other Users	0	0	0	2	2
Professional Accountancy Organizations	6	14	7	6	33
Public Sector Organizations	2	0	0	0	2
Regulators and Oversight Authorities	4	2	0	2	8
<b>Total</b>	<b>16</b>	<b>22</b>	<b>11</b>	<b>13</b>	<b>62</b>
	<b>26%</b>	<b>35%</b>	<b>18%</b>	<b>21%</b>	<b>100%</b>

# Preliminary Overview of ED Comment Letters (4/5)

## Question 4: Objectivity Requirements for Audit/Assurance

Stakeholder Category	Agree	Agree with Comments/ Mixed Views	Disagree	No Specific Comment	Total
Academia and Research Institutes	0	1	1	0	2
Accounting Firms and Sole Practitioners	0	8	3	2	13
Independent Standard Setters	0	2	0	0	2
Investors and Other Users	0	0	0	2	2
Professional Accountancy Organizations	3	18	9	3	33
Public Sector Organizations	1	1	0	0	2
Regulators and Oversight Authorities	3	5	0	0	8
<b>Total</b>	<b>7</b>	<b>35</b>	<b>13</b>	<b>7</b>	<b>62</b>
	<b>11%</b>	<b>56%</b>	<b>21%</b>	<b>11%</b>	<b>100%</b>

# Preliminary Overview of ED Comment Letters (5/5)

## Question 5: Threats to Compliance with the FPs

Stakeholder Category	Agree	Agree with Comments/ Mixed Views	Disagree	No Specific Comment	Total
Academia and Research Institutes	0	1	0	1	2
Accounting Firms and Sole Practitioners	2	9	0	2	13
Independent Standard Setters	0	2	0	0	2
Investors and Other Users	0	0	0	2	2
Professional Accountancy Organizations	8	17	1	7	33
Public Sector Organizations	1	1	0	0	2
Regulators and Oversight Authorities	4	3	0	1	8
<b>Total</b>	<b>15</b>	<b>33</b>	<b>1</b>	<b>13</b>	<b>62</b>
	<b>24%</b>	<b>53%</b>	<b>2%</b>	<b>21%</b>	<b>100%</b>

# Investors – Key Themes

- Supportive of proposals and principles-based approach taken
- Rigor introduced in evaluating CCO is appropriate given criticality of the use of experts
- Competence is key but will be the most challenging to evaluate for emerging fields
- Transparency is paramount, e.g., the use of which experts should be disclosed in the audit/ assurance report
- Appreciation of supply vs demand issue and hence a transition phase re availability of experts that meet the robust CCO approach
- Questions over
  - Are there any real-life cases which demonstrate that an expert's CCO negatively impacts auditor independence?
  - Does the long-term use of the same expert impact objectivity?



# Preparers/TCWG – Observation

- Evaluation of an external expert's CCO should be continuous



# Definitions – Key Themes <sup>(1/2)</sup>

## Overall Comments

- Definitions should be aligned in both ED ISSA 5000 and ISA 620 (e.g., ED ISSA 5000 does not define external expert, and the definition of expert and expertise are different from the proposals)
- Should include a definition of competence which is distinguished from expertise (e.g., ED ISSA 5000 para A66)

# Definitions – Key Themes (2/2)

## Comments re Expertise

- Should include “experience” for the definition of expertise, in particular since emerging fields might not yet have defined academic curriculum or qualifications to meet “knowledge and skills”
- Conflicts with ISA 620 definition of expertise and this would create challenges for inter-operability and there is not sufficient pervasive reason for the misalignment

## Comments re External Experts

- Further guidance on whether subcontractors used to bring on specific expertise (i.e., in a NAS engagement) are external experts or engagement team members
- Challenging for PAs to classify experts according to the Code’s intricate definitions of engagement team members, audit team members, external expert, internal expert

# Objectivity – Key Themes <sup>(1/2)</sup>

## Comments re Proposed Objectivity Requirements for Audit/Assurance Engagements

- Will create challenges for external experts to gather the information required as they do not have monitoring systems in place, potentially creating barriers for experts to accept engagements
- Are overly prescriptive, complex and onerous, and it will be challenging for the PA to rely on the completeness and accuracy of the information supplied by the external expert
- Encroaches on remit of IAASB as the proposals seem to directly affect whether sufficient appropriate evidence is obtained and goes beyond the requirements of the ISA 620, ISAE 3000 (Revised), and ED ISSA 5000
- Will have unintended consequences not in the public interest for SMPs as it will limit their ability to use experts by introducing excessive administrative burden and costs
- Binary nature of CCO test will negatively impact the development and quality of sustainability reporting and assurance as experts in this space are already scarce yet needed to better understand issues

# Objectivity – Key Themes (2/2)

## Comments re Suggested Approach for Objectivity Evaluation for Audit/Assurance Engagements

- Objectivity is a fundamental principle and thus should be evaluated in accordance with the conceptual framework by identifying threats (e.g., as set out in the list of independence attributes) and then by applying safeguards to reduce the threats
- Should include a sliding scale as how a PA might apply the factors based on the facts and circumstances such as how significant the expert's work is in context of the audit

# Other Suggestions/ Observations (1/2)

## 1. Scope

- A view that scope should not be limited to “external experts” only as it misaligns with ISA 620 and ED ISSA 5000

## 2. Concerns over

- How the provisions would apply to non-PA practitioners using external experts
- Whether PAIBs can influence what is included in the terms of engagement, because depending on their role at the employing organization, they will only sometimes be able to agree on the terms of engagement with the expert

# Other Suggestions/ Observations (2/2)

## 3. Proposals should

- Clarify the PA is still responsible to evaluate an external expert's CCO even if there is limited information
- Require the terms of engagement to be agreed in writing
- Require documentation to facilitate consistent implementation and enforcement

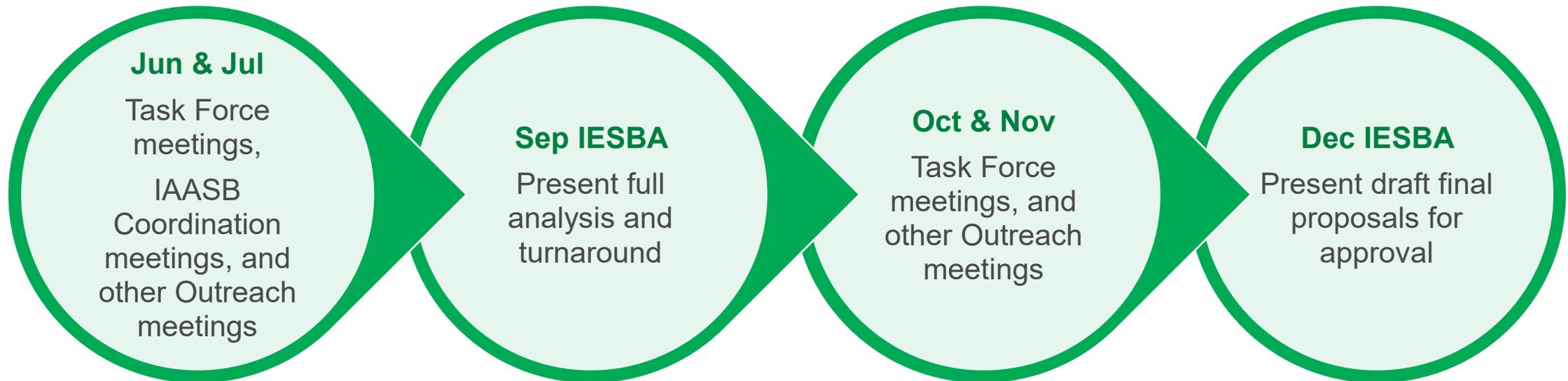
## 4. Additional guidance re

- “Opinion shopping”
- How using more than one expert increases/decreases level of threats

# Next Steps

## Consideration of the PIF

When analyzing comments, developing turnaround, considering need for additional outreach, etc.





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