

Agenda Item

3-A (Turnaround-APPROVED)

Using the Work of an External Expert

Section 390

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 A professional accountant might use the work of an external expert in the performance of a professional service. Using the work of such 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. Section 5390 addresses using the work of an external expert in sustainability assurance engagements or other professional services provided to the same sustainability assurance client. Other professional standards might address the competence, capabilities and objectivity of an external expert as factors that significantly affect whether the work of the external expert will be adequate for the professional accountant's purposes.

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, complex financial instruments,

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 assessment of forward-looking information about the decarbonization plans of an entity.
- The assessment of the application of offsetting mechanisms for an entity, such as for carbon or biodiversity.
- 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 and labor laws and regulations.
- The assessment and evaluation of IT systems, including those related to cybersecurity.

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;
- (b) The use of the work of individuals or organizations that are engaged by the professional accountant and are under the accountant's direction, supervision and review, for example, subcontractors; and
- (c) The use of information provided by individuals or organizations that are external information sources for general use. Examples of those information sources include 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.

390.4 A5 This section does not address a professional accountant's evaluation of the adequacy of an external expert's work for purposes of a professional service undertaken by the accountant, and the implications for the engagement if the accountant determines that such work is not adequate. Such implications might be addressed in other professional standards.

Agreeing the Terms of Engagement with an External Expert

All Professional Services

R390.5 If the professional accountant has determined to use an external expert for a professional service and has identified an external expert for such purpose, 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, review or other assurance engagements:
- (i) The provision of information in writing for purposes of assisting the accountant's evaluation of the external expert's objectivity; and
 - (ii) A commitment from the external expert to communicate any changes to the information provided during the period covered by the audit, review or other assurance report through to the issuance of that report.

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 planned approach to the work.
- Expectations regarding:
 - The confidentiality of the external expert's work and the inputs to that work.
 - The information to be provided by the external expert and the nature of such information.
 - The content and format of the external expert's completed work, including any assumptions made and limitations to that work.
 - The fees for the external expert's work.
 - The external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the client, or by those charged with governance, management or others working for or under the direction of the client, of which the external expert becomes aware when performing the work.

390.5 A2 A self-interest, self-review, familiarity or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a professional accountant uses an external expert who does not have the necessary competence, capabilities or objectivity to deliver the work needed for the particular professional service.

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 for the accountant's purpose.

390.6 A1 Competence relates to the nature and level of expertise of the external expert.

390.6 A2 Factors that are relevant in evaluating whether the external expert has the necessary competence 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 or is subject to oversight by a regulatory body or other authority, and, if so, whether the external expert is in good standing.
- Whether any disciplinary actions have been published by a regulatory body or other authority relating to the external expert's competence.
- Whether the external expert's work is subject to legal and regulatory requirements or 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 explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work.

R390.7 The professional accountant shall evaluate whether the external expert has the necessary capabilities for the accountant's purpose.

390.7 A1 Capabilities relates to the ability of the external expert to exercise their competence in the circumstances of the professional service.

390.7 A2 Factors that are relevant in evaluating whether the external expert has the necessary capabilities include:

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

R390.8 The professional accountant shall evaluate whether the external expert has the necessary objectivity for the accountant's purpose.

390.8 A1 Objectivity relates to the possible effects that bias, conflict of interest, or the undue influence of, or undue reliance on, others might have on the professional or business judgment of the external expert.

390.8 A2 Factors that are relevant in identifying threats to the objectivity of the external expert for the period during which the external expert is performing the work include:

- Whether the external expert or their employing organization has an actual or potential conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the professional accountant is aware of any potential bias that might affect the external expert's work.
- Whether the external expert is charging a contingent fee, and if so, the basis for such fee.
- 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 relation to the subject matter of the external expert's work.

390.8 A3 The external expert's employing organization is the entity that directly employs the expert, regardless of the legal form of the employment, and does not extend to other entities that might control, or are otherwise related to, the employing organization.

- 390.8 A4 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, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system, for the entity which is then used by the external expert in performing the work or is the subject of that work.
- 390.8 A5 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include:
- The existence of conditions, policies and procedures established by the external expert's profession, legislation, regulation, or the external expert's employing organization, including 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.
 - The nature and scope of the external expert's work.
 - The existence and adequacy of any quality management system employed by the external expert.
- 390.8 A6 Examples of actions that might be safeguards to address threats to an external expert's objectivity include:
- Consulting with qualified personnel, or a professional outside the professional accountant's firm, who have the necessary expertise to evaluate the external expert's work for the intended purpose.
 - Requesting the external expert to take steps to address a conflict of interest, for example, implementing measures to segregate the work from such conflict of interest.
 - Restructuring or reassigning the part of the external expert's work giving rise to the threat to another external expert.

Sources of Information

- 390.9 A1 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.

Additional Considerations when Evaluating Competence, Capabilities and Objectivity

390.10 A1 Evaluating whether an external expert has the necessary competence, capabilities and objectivity for the professional accountant's purpose involves exercising professional judgment and using the reasonable and informed third party test.

390.10 A2 A professional accountant might face pressure to breach the fundamental principles if the accountant encounters difficulties in concluding, or is unable to conclude, that the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose when the external expert has already performed a significant portion of their work. In such circumstances, Section 270 is relevant in considering how to address such pressure.

Additional Objectivity Considerations for Audit Engagements, Review Engagements and Other Assurance Engagements Outside the Scope of Part 5

390.11 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in an audit engagement, review engagement or other assurance engagement outside the scope of Part 5. Therefore, paragraphs R390.12 to R390.19 set out further actions in evaluating the objectivity of an external expert in such engagements, pursuant to paragraph R390.8.

Audit and Review Engagements for Clients that are Not Public Interest Entities and All Other Assurance Engagements Outside the Scope of Part 5

R390.12 The professional accountant shall request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
- (B) In relation to the entity at which the external expert is performing the work; and
- (C) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing organization;
- (b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organization might have in relation to the work the external expert is performing at the entity; and

- (c) Any previous or current engagements between the external expert or their employing organization and the entity.

R390.13 The professional accountant shall also consider requesting the external expert to provide in writing:

- (a) To the best of their knowledge and belief; and
(b) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organization and the entity at which the external expert is performing the work.

390.13 A1 In addition to the interests, relationships or circumstances in paragraph R390.13, paragraph R390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organization and the entity at which the external expert is performing the work.

390.13 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- The complexity of the external expert's work.
- The impact of the external expert's work on the professional accountant's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing organization and the entity.

Audit and Review Engagements for Clients that are Public Interest Entities

R390.14 The professional accountant shall request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
(B) In relation to the entity at which the external expert is performing the work; and
(C) From the beginning of the period covered by the audit or review report until the completion of the external expert's work,

information about:

- (a) Any direct financial interest or material indirect financial interest in the entity held by the external expert, their immediate family, or the external expert's employing organization;
(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 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 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;
- (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) Any fee or contingent fee or dependency on fees or other types of remuneration due to or recently received by the external expert or their employing organization from the entity;
- (h) Any gifts or other benefits accepted by the external expert, their immediate family or the external expert's employing organization from the entity other than those that are trivial and inconsequential;
- (i) Any actual or potential litigation between the external expert or their employing organization and the entity;
- (j) Any position currently or previously held by the external expert as a director, officer or employee of the entity;
- (k) Any position currently or previously held by the external expert's immediate family or by management of the external expert's employing organization 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 on which the professional accountant will express an opinion or conclusion, or the records underlying such information;
- (l) Any previous public statements by the external expert or their employing organization which advocated for the entity;
- (m) The nature and extent of any interests and relationships between the controlling owners, if any, of the external expert's employing organization and the entity; and
- (n) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organization might have in relation to the work the external expert is performing at the entity; and

with respect to the length of the relationship of the external expert and their employing organization with the entity:

- (o) How long the association has been.

Considerations Relating to an External Expert's Team and Where the Client is Not the Entity at Which the External Expert is Performing the Work

All audit engagements, review engagements, and other assurance engagements outside the scope of Part 5

R390.15 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 in writing the information set out in paragraphs R390.12 to R390.14, as applicable, in relation to the entity at which the external expert is performing the work.

R390.16 Where the professional accountant's client is not the entity at which the external expert is performing the work, the professional accountant shall also request the external expert to provide in writing:

- (A) To the best of their knowledge and belief;
- (B) In relation to the client; and
- (C) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about:

- (a) 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;
- (b) Any actual or potential conflict of interest the external expert, their immediate family or the external expert's employing organization might have with the client; and
- (c) Any previous or current engagements between the external expert or their employing organization and the client.

R390.17 The professional accountant shall also consider requesting the external expert to provide in writing:

- (a) To the best of their knowledge and belief; and
- (b) From the beginning of the period covered by the audit, review or other assurance report until the completion of the external expert's work,

information about any additional interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organization and the client.

390.17 A1 In addition to the interests, relationships or circumstances in paragraph R390.17, paragraph R390.14 sets out other interests, relationships or circumstances between the external expert, their immediate family or the external expert's employing organization and the client .

390.17 A2 Factors that are relevant in determining whether to request information about any additional interests, relationships or circumstances from the external expert include:

- The scale of the external expert's practice.
- The range of services offered by the external expert.
- How long the external expert has been practicing.
- Whether the client is a public interest entity.
- The nature of the relationship between the client and the entity at which the external expert is performing the work.
- The scale and complexity of the client's operations.
- The complexity of the external expert's work.
- The impact of the external expert's work on the professional accountant's engagement.

For example, the larger the external expert's practice, the broader its range of services, or the longer it has been practicing, the greater the possibility that there might be additional interests, relationships or circumstances between the external expert or their employing organization and the entity.

390.17 A3 Information about interests, relationships or circumstances between the 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.

Potential Threats to the External Expert's Objectivity

390.18 A1 Self-interest, familiarity or intimidation threats to the external expert's objectivity might be created by the interests, relationships or circumstances disclosed pursuant to paragraphs R390.12 to R390.17, as applicable.

390.18 A2 Factors that are relevant in evaluating the level of such threats to the external expert's objectivity include, in addition to those set out in paragraph 390.8 A5:

- Whether the financial interest is direct or indirect, and whether such financial interest is material to the external expert, their immediate family, or the external expert's employing organization, as applicable.
- Whether the financial interest allows the external expert, their immediate family, or the external expert's employing organization, as applicable, to control or significantly influence the entity at which the external expert is performing the work.
- The materiality or significance of the close business relationship between the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity or its management.
- The significance of any fees due to or recently received by the external expert or their employing organization from the entity.
- The role of the individual within the external expert's team.

- The nature and value of the gifts or other benefits to the external expert, their immediate family or the external expert's employing organization.
- The materiality or significance of the litigation and whether the litigation relates to prior work performed by the external expert at the entity.
- The length of time since the external expert left the entity as a director, officer or employee of the entity.
- The position in the entity held by the external expert's immediate family or the management of the external expert's employing organization.
- The nature of any advocacy for the entity if the external expert or their employing organization made any previous statement advocating for the entity.

390.18 A3 Examples of actions that might eliminate the threats to the external expert's objectivity include requesting the external expert to:

- End the close business relationship.
- Remove the individual concerned from the external expert's team.
- Decline the gifts or other benefits offered by the entity.

390.18 A4 Examples of actions that might be safeguards to address the threats to the external expert's objectivity include, in addition to those set out in paragraph 390.8 A6, requesting the external expert to:

- Dispose of enough of the financial interest so that the remaining interest is no longer material.
- Reduce the significance of the close business relationship.
- Structure the responsibilities of the individual concerned so that they do not deal with matters that are within the responsibility of the immediate family member who is serving 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 on which the professional accountant will express an opinion or conclusion, or the records underlying such information.
- Returning the gifts or other benefits to the entity as soon as possible after they were accepted.

Consideration of New Information or Changes in Facts or Circumstances

All Professional Services

R390.19 The professional accountant shall re-evaluate whether the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose when new information or changes in facts and circumstances arise.

Audit, Review and Other Assurance Engagements

R390.20 The professional accountant shall re-evaluate whether the external expert has the necessary objectivity for the accountant's purpose when there are any changes communicated pursuant

to paragraph R390.5(b)(ii) that might arise during the period covered by the audit, review or other assurance report through to the issuance of that report.

Concluding on the External Expert's Competence, Capabilities and Objectivity

All Professional Services

R390.21 The professional accountant shall not use the work of the external expert if the accountant:

- (a) Is unable to determine whether the external expert has the necessary competence or capabilities, or is objective;
- (b) Determines that the external expert does not have the necessary competence or capabilities for the accountant's purpose; or
- (c) Determines that there are threats to the external expert's objectivity that cannot be eliminated or reduced to an acceptable level.

390.21 A1 Circumstances in which a professional accountant would be unable to determine whether the external expert has the necessary competence or capabilities, or is objective, include where:

- The external expert is unable to provide any of the information requested in paragraphs R390.12 to R390.17 because of a confidentiality restriction in law or regulation.
- In relation to specific information requested in paragraphs R390.12 to R390.17 concerning the external expert's immediate family member or employing organization, the external expert is unable to obtain their consent to such disclosure.

390.21 A2 If a professional accountant uses the work of such external expert, this creates threats to the accountant's compliance with the principles of integrity, objectivity and professional competence and due care that cannot be eliminated or reduced to an acceptable level by the application of safeguards.

Potential Threats Arising from Using the Work of an External Expert

All Professional Services

390.22 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

390.23 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 providing a professional service.

- A professional accountant has insufficient time or resources to evaluate the external expert's work.
- (b) Self-review threats
- A professional accountant uses the work of an external expert who relies on previous judgments made by the accountant and provided to the external expert for the purposes of their work.
- (c) Advocacy threats
- A professional accountant promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the client.
- (d) Familiarity threats
- A professional accountant has a close personal relationship with the external expert.
- (e) Intimidation threats
- A professional accountant feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.
 - A professional accountant feels pressure to use the work of a particular external expert in order to meet internal or external targets and expectations.

Evaluating Threats

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

Addressing Threats

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

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

- Consulting with qualified personnel, or a professional outside the professional accountant's firm, who have the necessary expertise 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

390.26 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.

390.26 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 to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

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

390.27 A1 Where appropriate, the professional accountant is encouraged to communicate with management and 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

R390.28 The professional accountant shall obtain the information set out in paragraphs R390.12 to R390.17, as applicable, in writing from the external expert.

390.29 A1 The professional accountant is encouraged to document:

- 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.
- The results of any significant discussions with the external expert.