

Using the Work of an External Expert

Section 390: Proposed Revisions (Mark Up from IESBA Sept 2024 Meeting)

PROPOSED 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. Other professional standards might address ~~that~~ the competence, capabilities and objectivity of an external expert ~~are~~ 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.
- [5390 Only] Consideration of the methodologies or classification systems used to measure a product's impact on the environment~~range of accounting tools used in ecolabels covering supply chains.~~
- [5390 Only] Assessment or measurement of impacts of activities, products or services on the environment, economy and social or cultural conditions.

- An additional example (complex financial instruments) was added to the bullet on valuation of financial liabilities as suggested by a Monitoring Group member.
- Regarding the bullet about the assessment of forward-looking information, the Task Force considered comments about whether assessing the decarbonization plans of an entity would encroach onto management's responsibility for business strategy. However, the Task Force notes that this is merely an example of work that an external expert might be engaged to do and is not intended to suggest any assumption of management responsibility by the PA or the PA's external expert.
- The penultimate bullet [5390 only] was reworded for better clarity as suggested by IESBA participants.

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;
- (be) 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
- (cb) The use of information provided by individuals or organizations that are external information sources for general use. Examples of those information sources ~~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~~;~~ and

Reordered for better flow as suggested by an IESBA participant. The Task Force also notes the suggestion at the September Board meeting to add guidance as to what is intended by 'direction, supervision and review' in bullet (b) in the context of a non-assurance service, for example, the explanation contained in paragraph 20 of the [IESBA September Agenda Item 3A Issues Paper](#). The Task Force proposes to include such explanation in the Basis for Conclusions (BfC).

The Task Force also considered a question from a Monitoring Group member about whether using the work of cyber-security experts and data providers providing value chain information through common platforms are within the scope of these provisions. The Task Force notes that the general principles underlying the above scoping paragraph 390.4 A4 applies. Depending on the specific facts and circumstances, a PA using the work of:

- A cyber-security expert *might* be subject to these provisions, depending on whether or not the expert is under the PA's direction, supervision and review under 390.4 A4(b).
- Data providers who provide value chain information through common platforms *might* be subject to these provisions, depending on whether or not such information is for general use under 390.4 A4(c).

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 identified-determined to use an external expert ~~to use~~ 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 needed for purposes of assisting the accountant's evaluation of the external expert's competence, capabilities and 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 and the engagement period.

The Task Force added clarification to the period covered in R390.5(b)(ii) as suggested by IESBA participants.

This is because there might be a gap in the period covered between the end of the period covered by the audit/assurance report and the start of the engagement, and the PA might not be informed of any changes to previous information provided by the external expert during that gap.

See below additional explanation under “*additional objectivity considerations for audit, review or other assurance engagements*” for how the evaluation of an external expert’s objectivity is intended to be operationalized.

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-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 ~~expected~~ content and format of the external expert’s completed work, including any assumptions made and limitations to that work.
 - The ~~expected~~ fees for the external expert’s 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.

390.56 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.

Incorporated suggestion to consolidate all the threats created in 390.5 A2; otherwise, it would appear that they are sprinkled throughout the text, i.e., in 390.8 A2 and 390.8 A3. Accordingly, the threats in the latter paragraphs have been removed.

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

All Professional Services

R390.6 The professional accountant shall, ~~to the extent not otherwise addressed by other professional standards,~~ evaluate whether the external expert has the necessary competence, ~~capabilities and objectivity~~ for the accountant’s purpose.

- Requirement R390.6 split into three separate requirements (R390.6, R390.7 and R390.8) to enhance flow and clarity. No change in the substance of the requirement, but the split helps to better guide the user through the evaluation of the external expert's CCO. This also responds to the PIOB Observer's comments at the September Board meeting to ensure that there are no actual or perceived gaps in the requirements.
- Phrase *"to the extent not otherwise addressed by other professional standards"* withdrawn in response to comments from IESBA participants that the phrase appeared to weaken the requirement, notwithstanding that ED comments noted that the CCO evaluation appeared to repeat the same factors contained in ISA 620.

As agreed with the IAASB in September, such perceived repetition is considered appropriate by both boards due to the differences in scope and purposes of the performance and ethics standards. Explanation, as contained in the IESBA September Agenda Item 3A Issues Paper, to be included in the BfC.

390.6 A1 Competence relates to the nature and level of expertise of the external expert. ~~Capabilities relates to the ability of the external expert to exercise that competence in the circumstances of the professional service. 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.~~

390.6 A²⁴ 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, ~~or adheres to legal and regulatory requirements~~ in the external expert's field or area of expertise.

To incorporate suggested drafting provided by an IESBA participant and to address comments that the term "adheres to" seems to imply some form of auditing/checking is needed.

- 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.

R390.76 The professional accountant shall, ~~to the extent not otherwise addressed by other professional standards~~, evaluate whether the external expert has the necessary competence, ~~capabilities and objectivity~~ for the accountant's purpose.

390.~~76~~ A1 ~~Competence relates to the nature and level of expertise of the external expert. Capabilities relates to the ability of the external expert to exercise that competence in the circumstances of the professional service. 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.~~76~~ A~~25~~ 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.~~86~~ The professional accountant shall, ~~to the extent not otherwise addressed by other professional standards,~~ evaluate whether the external expert has the necessary ~~competence, capabilities and~~ objectivity for the accountant's purpose.

390.~~86~~ A1 ~~Competence relates to the nature and level of expertise of the external expert. Capabilities relates to the ability of the external expert to exercise that competence in the circumstances of the professional service.~~ 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.~~86~~ A~~26~~ Factors that are relevant in identifying ~~self-interest or familiarity~~ 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.

Last bullet in 390.8 A2 and corresponding example in 390.8 A3 reinstated (as per the [Exposure Draft](#) (ED) with changes in **yellow highlight**) in response to comments from IESBA participants that it is important for the PA to consider the circumstance and whether it might create an unacceptable level of threat to the external expert's objectivity, notwithstanding ED comments from some respondents that for a non-assurance service, the use of the same external expert to efficiently provide a service is not uncommon.

The change from ED in yellow for 390.8 A2 is to ring-fence the potential self-review threat created, and pin-point how it is being created. The change from ED in yellow for 390.8 A3 is to include the example as suggested by a Monitoring Group member.

390.8 A3 Examples of previous judgments made or activities performed by an external expert or their employing organization that might create a 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.

390.86 A47 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.

390.86 A58 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 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.

390.86 A69 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 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 ~~such as ethical walls~~ 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.

Removed the term "ethical walls" as suggested by an IESBA participant as it might be specific to particular firms only.

Added an example of another safeguard, responsive to PAO and IFAC SMP Advisory Group input who noted that for SMPs, the first two safeguards might not be workable.

Sources of Information

390.96 A10 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

390.610 A13 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 purposes 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.

To address concerns from IESBA participants and a Monitoring Group member that if the external expert is allowed to start their work prior to the PA concluding that the external expert has the necessary CCO for the PA's purposes, there might be increased pressure on the PA to conclude that the external expert has the necessary CCO even if the evaluation indicates otherwise. This might be the case, for example, if the expert's work is near complete, given the time and cost already spent and deadlines that might need to be met. Also incorporates suggestion to cross-reference to the extant Code's Section 270 *Pressure*.

Additional Objectivity Considerations for Audit, Review or Other Assurance Engagements

The Task Force considered further input from PAO and IFAC SMP Advisory Group, who noted that for SMPs, the requirement to obtain such a long list of information in ED paragraph R390.8 (now R390.14) from an external expert is unduly onerous and disproportionate, and therefore create a barrier to SMPs engaging external experts, which would not be in the public interest. For example, it was argued that SMPs might not be able to compete with larger firms on fees for the same external expert. Combined with the requirement to request a long list of information, the external expert might determine not to accept the engagement from an SMP.

Consequently, to enhance the proportionality of the requirements, the Task Force proposes scaling them based on the different scenarios, i.e., addressing using the work of an external expert in (a) an audit or review engagement for a public interest entity (PIE) client, and (b) an audit or review for a non-PIE client, or any other assurance engagements:

- For an audit or review engagement for a PIE client, ED paragraph R390.8 (now R390.14) is still relevant.
- For an audit or review for a non-PIE client or any other assurance engagements, three key pieces of information are required to be requested, along with a requirement for the PA to consider the need to request further information from the external expert based on the facts and circumstances. In this regard, additional guidance has been added in 390.13 A1 to assist the PA in determining whether further information should be requested from the external expert for the objectivity evaluation.

Period Covered for the External Expert's Objectivity

The Task Force took into account the comments from IESBA participants and further PAO and SMP AG input that:

- The evaluation of the external expert's objectivity should be from the beginning of the period covered from the audit, review or other assurance report through to the issuance of that report (see explanation under *"agreeing the terms of engagement with an external expert"*).
- The period for requesting information from the external expert was too long (i.e., as per ED, the period covered by the audit or assurance report and engagement period) and would be unduly onerous and challenging to operationalize.

Accordingly, the Task Force proposes that the period with respect to which the information is requested from the external expert starts from the period covered by the report until the completion of the expert's work – recognizing that often, the expert's work might be completed in a relatively short period, and that to require the expert to provide forward looking information until the end of the engagement period/issuance of report, would be unreasonable and impracticable.

However, to mitigate the risk that any changes in information might occur during the period between completion of the expert's work and report issuance, the PA is required to obtain a commitment from the external expert to communicate any changes in the initial information provided (R390.5(b)(ii)) and to evaluate such information when it is received (R390.19).

Additional Objectivity Considerations for Audit, Review or Other Assurance Engagements

390.117 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in an audit, review or other assurance engagement. Therefore, paragraphs R390.128 to R390.1419 set out further actions in evaluating the objectivity of an external expert in an audit, review or other assurance engagement pursuant to paragraphs R390.6, R390.7 and R390.8.

Audit and Review Engagements for Clients that are Not Public Interest Entities and All Other Assurance Clients

R390.12 The professional accountant shall request the external expert to provide to the best of their knowledge and belief, in relation to the entity at which the external expert is performing the work and with respect to 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 conflicts of interest the external expert, their immediate family or the external expert's employing organization might have with 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 to the best of their knowledge and belief, with respect to 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 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.

Audit and Review Engagements for PIE Clients

To the best of their knowledge and belief

Updated in response to comments that the phrase “to the best of their knowledge” appears to weaken the requirement. This wording aligns with that in ISA 580, Written Representations “Appendix 2 Illustrative Representation Letter.”

The Task Force believes that this is an appropriate threshold as it means that the external expert should have provided the information in good faith in responding to the PA’s request, notwithstanding that the external expert is not expected to implement a system of quality management to identify and monitor the matters listed in R390.14.

With respect to the period covered

Reinstated the period covered by the request for information, responsive to comments from IESBA participants that requesting most of the matters listed in R390.14 without a time limit might be disproportionate and impracticable. Accordingly, the ordering of the bullets has been updated.

The Task Force believes that there is only one bullet that should remain unbound by a time limit, which is reflected in the revised hanging paragraph at the end of R390.14. This information is important to understand as it helps to inform the PA as to how familiar the external expert is with the entity, and hence how likely the objectivity of the external expert might be impacted.

The actual time period is per the ED with changes in **yellow highlight**. See explanation under “*additional objectivity considerations for audit, review or other assurance engagements*” above.

Audit and Review Engagements for Clients that are Public Interest Entities

R390.148 The professional accountant shall request the external expert to provide to the best of their knowledge and belief, 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 review report until the completion of the external expert’s work, information about:

- (ka)** 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;
- (lb)** 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;
- (mc)** 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;
- (nd)** 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; and

- (~~ee~~) 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.
- (~~af~~) Any previous or current engagements between the external expert or their employing organization and the entity;
- (~~cg~~) 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;
- (~~dh~~) Any gifts or other benefits ~~received-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;
- (~~ei~~) Any actual or potential litigation between the external expert or their employing organization and the entity;
- (~~fi~~) Any position currently or ~~recently-previously~~ held by the external expert as a director, officer or employee ~~in-of~~ the entity;
- (~~gk~~) 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;
- (~~hl~~) Any previous public statements by the external expert or their employing organization which advocated for the entity;
- (~~im~~) 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
- (~~jo~~) Any actual or potential 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

with respect to the ~~period covered by the audit or assurance report and the engagement period:~~

(~~b~~) ~~The~~ length of the relationship of the external expert and their employing organization with the entity, how long such association has been.;

Bullet h – Replaced “received” with “accepted” consistent with the extant Code’s provisions on *Inducements*.

Bullet i – The Task Force considered an IESBA participants concern with the example of litigation due to:

- Lack of scalability since some litigation could be insignificant and not related to the assurance engagement, such as a contractual dispute.

The Task Force has segregated the requirements for non-PIE vs PIE clients. Therefore, this is not required for non-PIE clients but is considered necessary to know for PIE clients.

- Confidentiality concerns since it is possible that the expert’s legal counsel or the employing organization’s legal counsel would not disclose ALL litigation.

The Task Force has clarified that any information that cannot be provided due to confidentiality will meet R390.21(a) “the PA is unable to determine the CCO of an external expert”. However, with the differential requirements for non-PIE and PIE clients, this should be scalable.

- Challenging in situations when the expert or employing organization is considering bringing litigation that’s not yet known to the entity.

The Task Force has clarified the period required for information to be provided.

Bullet k - Added “previously” in response to comments that previous positions held in the entity by the external expert, immediate family, etc., are also important for the PA to understand, especially during the period covered by the by the audit or assurance report and the engagement period.

All Audit, Review and Other Assurance Clients

R390.159 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 paragraphs R390.12 to R390.148, in relation to the entity at which the external expert is performing the work.

R390.1416 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 disclose provide to the best of their knowledge and belief, in relation to the client and with respect to the period covered by the audit or review assurance report until the completion of the external expert’s work 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:~~

(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.;

- ~~• 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.~~

(b) Any conflicts 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.

Elevated to a requirement, responsive to a Monitoring Group member's suggestion. Also added the last example as suggested by a regulator. However, removed the previous second bullet as it was overly broad and, accordingly, did not provide guidance as to what the PA should be requesting from the external expert. Instead, the Task Force is proposing the provisions in R390.17 and 390.17 A1 so that it is more helpful for the PA to determine when additional information should be requested from the external expert.

R390.17 The professional accountant shall also consider requesting the external expert to provide to the best of their knowledge and belief, with respect to 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 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's work is being performed.
- The geographical distance of the entity at which the external expert's work is being performed relative to the client.
- The scale and complexity of the client's operations.

390.11~~17~~**A2** 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.

390.12~~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 R390.8 to R390.11, as applicable.

390.12~~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 390.6 A~~98~~:

The Task Force noted the suggestion from an IESBA participant to add "might" in the lead-in as not all factors are relevant but noted that this would not be consistent with the Code's drafting conventions.

- Whether the financial interest is direct or indirect, and the materiality of such financial interest 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 to 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 public statement advocating for the entity.

Bullets re-ordered (track not shown as no change in text) so that they follow the ordering of R390.14.

The Task Force also noted the question from an IESBA participant as to why the last bullet is limited to public statements only. The Task Force noted that any advocacy statement by the external expert or their employing organization could have been made in a private setting but the PA might have overheard or been privy to such a statement. In such circumstances, the PA should still evaluate such statement in the context of the external expert's objectivity; however, for the purposes of requesting information from an external expert, it is unlikely that statements made in private would be provided to the PA.

390.4218 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 ~~received from~~offered by the entity.

390.4218 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 390.6 A108, 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

Audit, Review and Other Assurance Engagements

R390.1019 The professional accountant shall evaluate any changes in ~~facts or circumstances~~the information communicated by the external expert pursuant to paragraph R390.5(b)(ii) regarding the matters set out in paragraphs R390.12 to R390.178 that might arise during the period covered by the audit, review or other assurance report through to the issuance of that report~~and the engagement period~~.

All Professional Services

R390.201 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.

Relocated the re-evaluation paragraphs and added sub-headings in response to comments from IESBA participants that the requirements to re-evaluate seemed incomplete and should be better linked to R390.21. These paragraphs now come prior to concluding on the external expert's CCO because concluding on an external expert's CCO should occur after any evaluation.

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

All Professional Services

R390.1321 ~~If~~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.

~~the accountant shall not conclude that the external expert is competent, capable or objective. In such circumstances, the accountant shall not use the work of the external expert.~~

Lead-in refined in response to suggestions from IESBA members to make it clearer that it is a prohibition. The Task Force has also considered suggestions from IESBA members to re-order the bullets, but given that this prohibition (and related bullets (a) to (c)) is reflected in the “bridge” to the IESBA Code in IAASB’s [recently approved ISSA 5000](#) paragraph A142, no re-ordering was done in order to maintain the full alignment with the IAASB.

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 paragraph R390.21 because of a confidentiality restriction in law or regulation.
- In relation to specific information requested in paragraph R390.21 concerning the external expert’s immediate family member or employing organization, the external expert is unable to obtain their consent to such disclosure.

Application material added to explain and clarify when and how R390.21(a) applies.

The Task Force identified three scenarios where R390.21(a) might apply, including the two set out in 390.21 A1.

The other scenario is where, due to changes in facts and circumstances, the external expert is no longer able to provide the information requested for any number of reasons outside of law, regulation or consent (e.g., change of business strategy or management). This might happen after the external expert has committed to providing such information when agreeing the terms of engagement in R390.5. This would then trigger R390.5(b)(ii), and the external expert is obligated to communicate to the PA that it can no longer provide such information, and hence the PA is unable to determine the external expert’s CCO and R390.21(a) applies.

390.~~13-21~~ A21 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.

An IESBA participant noted that 390.21 A2 seemed redundant given the clear prohibition in R390.21. Further, it was suggested that 390.21 A2 might make the prohibition unclear, because it might imply that the PA can still use the work of an external expert despite the situations described in R390.21.

The Task Force believes that this paragraph is still needed given the overwhelming number of ED respondents who did not understand or clearly see the ethical rationale for the prohibition on using an external expert’s work. Paragraph 390.21 A2 is seeking to address this and is not intended to be a “way-out” of a prohibition. The BfC will include this explanation.

Potential Threats Arising from Using the Work of an External Expert

All Professional Services

390.~~15-22~~²²A1 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.~~16-23~~²³A1 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.
- 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 an external expert in order to meet internal or external targets and expectations.

Added example responsive to suggestions to include pressure on the PA to "cherry-pick" expert work so that it meets a particular outcome.

Evaluating Threats

390.17-24 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

390.18-25 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

390.18-25 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel or a professional outside the firm –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.

Expanded the first safeguard, responsive to the IFAC SMP Advisory Group's comments that the safeguard might be too narrow for SMPs. The term "experience" has been withdrawn since it is now included in the definition of "expertise."

Other Matters

External Experts in Emerging Fields or Areas

- 390.19-26 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.
- 390.19-26 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.

~~Using the Work of Multiple External Experts~~

~~**R390.20** 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 the combined effect of using the work of the multiple external experts might create additional threats or impact the level of threats.~~

~~**390.20 A1** For example, while a professional accountant might have determined that there is a need to use more than one external expert for a professional service, when the work performed by such external experts as a whole using multiple external experts might create an additional self-interest to the accountant's compliance with the principles of integrity, objectivity and professional competence and due care, becomes an unduly large or dominant proportion of the professional service.~~

The Task Force noted the comments from IESBA participants that it was unclear what threat (and issue) R390.20 and 390.20 A1 was trying to address.

The observations noted that there can be valid reasons for the external expert's work to address a "large or dominant" proportion of the professional service. For example, it was noted that experts might be needed for valuation of real estate, oil and gas reserves, mineral reserves, tax valuation of intangibles, assessment of potentially significant impairments, etc. The question raised was that if proper evaluation of CCO for each external expert is key and each external expert has been deemed CCO, why using the work of multiple external experts should create an issue, and what the nature of that issue would be.

The Task Force notes that the external expert's work will always be material in some qualitative, if not quantitative, way. Otherwise, the PA would not have engaged the external expert(s).

The Task Force's view is that the heart of what the paragraphs were trying to address is undue reliance on the work of multiple external experts. The consequence of such undue reliance means that it would be questionable whether the PA could still reasonably hold ultimate accountability for the service (in substance), and importantly, whether the PA even has the competencies required to hold such accountability.

Given that this potential self-interest threat is already included in 390.23 A1(a) second bullet "a PA has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional service" – the Task Force proposes to withdraw these paragraphs.

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

~~**390.21 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.~~

Withdrawn in response to the comment from an IESBA participant that the second sentence seems to imply that the external expert's work can still be used, even if there is a lack of information to evaluate their CCO. Under such circumstances, the PA is prohibited from using the work of such external expert (paragraph R390.21(a)).

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

390.~~22-27~~ 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.~~23-28~~ 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.

Bullets re-ordered (track not shown as no change in text) so that the last bullet "results of any significant discussions" has more context following the first two bullets.

The Task Force further reaffirmed its position not to require documentation. This is consistent with the extant Code, which does not generally require documentation. The issue of whether to require documentation is a broader issue that concerns other topics addressed by the Code and would be better addressed as part of a strategic review of the documentation provisions in the Code.