

Using the Work of an External Expert

IESBA Meeting, November 8, 2024, Virtual

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Revisions Since September Informed By

- September IESBA meeting and other advance comments from IESBA participants
- Committee of European Auditing Oversight Bodies
- Forum of Firms Middle East
- IFAC Small and Medium Practices Advisory Group
- Accountancy Europe

All comments discussed and considered at the Task Force's October meeting to develop the November text



Summary of Key Revisions

- Objectivity evaluation
 - ❑ Period covered
 - ❑ Proportionality of Request for Information
- Pressure
- Safeguards
- Others
 - ❑ Multiple experts
 - ❑ Inherent limitations in evaluating external expert's CCO
 - ❑ Section 290: The external expert's employing organization



Objectivity Evaluation for Audits & Reviews: Period Covered

Balancing act between:

Timeframe is too onerous (period of report and engagement period)

VS

Timeframe should be extended (period of report until the issuance of such report)

TF notes that:

- Challenging for EE to provide 'forward-looking information' past the completion of their work → *shortened the time period in relation to which the external expert needs to provide information*
- However, threats to the EE's objectivity might arise which impacts RITP perception of the objectivity of such work → *external expert to communicate any changes until the issuance of the report*

Objectivity Evaluation for Audits & Reviews: Period Covered

Period Covered for the External Expert's Objectivity

Period covered by the audit, review or other assurance report through to the issuance of that report



PA to request information from the external expert to evaluate objectivity (R390.12 to 17)
Period covered by the audit, review or other assurance report until the completion of the expert's work



External expert communicates any changes in information provided & PA to evaluate such changes (R390.5(b)(ii) & R390.19)
Period covered by the audit, review or other assurance report through to the issuance of that report



Objectivity Evaluation for Audits & Reviews: Proportionality of Request for Information

- Issue for SMPs to find EEs and may hamper quality

TF acknowledges the comments and:

- ✓ *Segregated* the requirements into non-PIE and PIE audits and reviews
- ✓ *Maintained* requirements for PIE audits and reviews
- ✓ *Scaled* requirements for non-PIE audits and reviews and all other assurance engagements
- ✓ *Added guidance* to assist the PA in determining whether more information is needed

Objectivity Evaluation for Audits & Reviews: Scalability of information requested

Non-PIE Audits and Reviews, SAEs NOT within Scoping Criteria of Part 5, and All Other Assurance Engagements

- PA required to request information from the external expert on 3 matters to evaluate objectivity (R390.12 (a) to (c))
- PA to consider need to request and evaluate any additional information (R390.13)

PIE Audits and Reviews, and SAEs within Scoping Criteria of IIS in Part 5

- PA to request information from the external expert on extended list of specific matters to evaluate objectivity (R390.14 (a) to (o))

All Clients

- Where the client is the entity at which the external expert is performing the work:
 - Relevant information for objectivity evaluation in paragraphs R390.12 to R390.14, as applicable, extended to all members of the external expert's team (R390.15)
- Where the client is *not* the entity at which the external expert is performing work:
 - PA required to request more limited set of information wrt the client to evaluate objectivity (R390.16 (a) to (c))
 - PA to consider need to request and evaluate any additional information wrt the client (R390.17)

Objectivity Evaluation for Audits & Reviews: When the PA is unable to conclude

- PA will be unable to obtain information required from the EE due to privacy or confidentiality concerns

TF notes that there are three key situations where EE refuses or is unable to provide information:

- Due to law or regulation → *PA unable to evaluate EE's objectivity*
- Due to inability to obtain consent from the EE's immediate family or employing organization to disclose → *PA unable to evaluate EE's objectivity*
- Outright refusal (either during agreement of terms of engagement, or subsequent to that) → *PA unable to agree terms, or evaluate EE's objectivity*

Clarified these scenarios and outcome in the text. Accommodating these situations mean lowering the threshold for objectivity and will compromise, at very least, the perception of the reliability of the EEs work.

Objectivity Evaluation for Audits & Reviews: When the PA is unable to conclude

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.

Objectivity Evaluation - Factor and Example of SRT: Reinstatement of ED text with revisions in yellow

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 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

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.

Pressure: Two examples added

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.

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:

...

(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.**

Safeguards

- All Professional Services – Not realistic for SMPs as they may not have (a) qualified personnel at their disposal; and (b) sufficient individuals-practice to set up ethical walls
- Audit and other Assurance – Not practical in real life as an EE will not see a need to dispose of financial interests or modify the significance of their business relationship, and rather focus on other market requests

TF welcomes other suggestions for safeguards.

Others

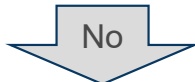
Matter	TF Proposal
Multiple experts – the issue is unclear	Paragraphs withdrawn, as the key issue (over-reliance) is already addressed within the text under Identifying Threats
Inherent limitations in evaluating external expert's CCO – seems irrelevant now due to the prohibition	Paragraph withdrawn
Section 290: The external expert's employing organization – include EO's perspective throughout the text	<ul style="list-style-type: none"> • No change as the TF did not want to shift the accountability away from the PA using the work of the EE • Ultimately, a responsible party within the EO will sign the contract with the EE on behalf of the PA's employing organization
Review of text from a "requirements only" standalone	<ul style="list-style-type: none"> • Done, and deemed satisfactory. • 13 requirements as compared to 9 in September.

Revised Flowchart

Classification of Different Types of Experts For an Audit Engagement

You are engaging or employing an individual with expertise outside your competence

1. Is the individual** performing audit procedures, regardless of whether they are employed or engaged by firm?



2. Is the individual** providing consultation such as in accordance with ISA 220 (Revised), regardless of whether they are employed or engaged by firm?



EXTERNAL EXPERT

Section 390

Yes

ENGAGEMENT TEAM MEMBER

Independence Required (Part 4A of Code)

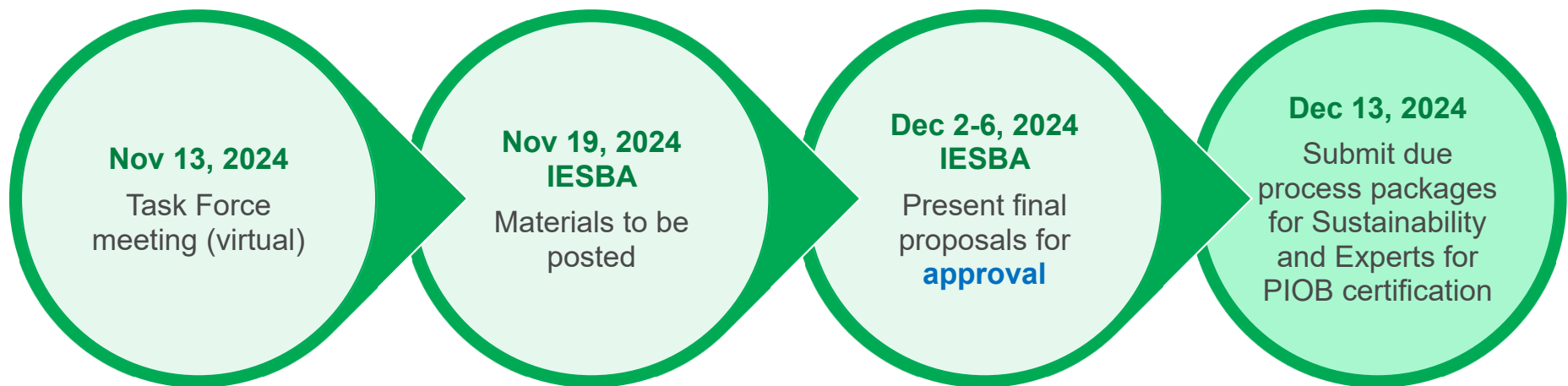
Yes

AUDIT TEAM MEMBER

Independence Required (Part 4A of Code)

*** Even if the work of an organization is used, it is anticipated that there will always be an individual in charge of the work to be performed*

Experts – Next Steps





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