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Dear Ken,

Exposure Draft: Using the Work of an External Expert

The Financial Reporting Council (FRC) welcomes the opportunity to comment upon the IESBA's Exposure Draft on *Using the Work of an External Expert*. The FRC has a strong interest in ensuring that the IESBA Code supports the global integrity of the accountancy and audit professions. The FRC does not mandate the International Independence Standards (IIS) for UK audit and assurance providers, and instead issues its own *Ethical Standard*. However, this is intended to be as least as stringent as the requirements included within the IESBA Code with respect to auditor independence. Additionally, professional accounting bodies in the UK adopt the Code as the basis of their codes of professional ethics. In consequence, the FRC strongly supports the IESBA's strategic vision to ensure that its ethical standards are a cornerstone for ethical behaviour by the accounting profession and beyond.

We have a number of general observations to make about the ED. We strongly support the development of enhanced ethical requirements relating to the use of external experts, due to their increasing importance for the delivery of high-quality audit and assurance engagements. We also welcome the development of requirements and considerations which can be applied by SAPs who are not PAs when delivering sustainability assurance.

We also support the close co-ordination with other bodies and initiatives that has underpinned the development of this ED. We strongly support the co-ordination between the IESBA and the IAASB that has fed into the development of the ED. We also welcome the common timeframe shared by the development of these proposed requirements with the IESBA's proposed International Ethics Standards for Sustainability Assurance. It is important that the IESBA continues to engage with a wide range of global stakeholders in the development of these new standards, and especially with SAPs from non-PA backgrounds. Accordingly, we encourage the IESBA to consider the development of non-authoritative material to support these changes, and to tailor this to the needs of non-PAs.

Our comments are also exclusively concerned with the application of the changes to audit and assurance in engagements. We have no comments to make with respect to the impact on PAIBs arising from these changes.

Our specific responses to the questions set out in the consultation are included as an annex to this letter. If you have any questions relating to this response, please contact myself or Peter Kitson (p.kitson@frc.org.uk).

Yours sincerely,



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Annex: Responses to the questions set out in the consultation document

Glossary

1. *Do respondents support the proposals set out in the glossary concerning the proposed new and revised definitions?*

The FRC supports the revised definitions of 'expert', 'expertise', and 'external expert' for inclusion in the glossary as set out in the ED. The definitions are reasonable and provide a basis for judgements by practitioners on determining whether an individual is expert. In particular, the definition of expertise makes it clear that this is bound to a specific subject matter, and we would encourage the IESBA to emphasise this point in any future guidance.

More generally, we also consider that there is scope to do more to assist practitioners who do not come from an accounting background to apply the new requirements. For example, the very helpful diagrams included within the EM to explain the scope of the proposed changes could be usefully incorporated within the Code as an aid to interpretation by practitioners; or issued as separate guidance alongside the revised code.

Evaluation of CCO for all Professional Services and Activities

2. *Do respondents support the approach regarding evaluating an external expert's competence, capabilities and objectivity? Are there other considerations that should be incorporated in the evaluation of CCO specific to PAIBs, PAPPs and SAPs?*

We are generally supportive of the approach implemented within the ED towards evaluating the CCO of an external expert. However, we believe the approach could be improved by requiring practitioners to make a preliminary assessment before engaging the expert, as well as a final determination following the conclusion of the expert's work. The evaluation of an expert's CCO should be continuous to reflect the dynamic conditions in which PAs and SAPs will be applying these requirements.

The ED does not include a requirement to complete the CCO evaluation required in paragraphs R390.6 and R390.12 before engaging the external expert. The requirements could recognise that the practitioner should make a preliminary conclusion on CCO before deciding to utilise the expert, to mitigate practical risks around wasting time and resources by leaving the determination until later.

It would also be inappropriate to reach a final conclusion on the CCO evaluation until the expert has completed their work. Instead, the practitioner should continually assess the competence, capability, and objectivity of the expert for the duration of their work. While the considerations set out in R390.6 and supporting application material within the ED provide a strong basis for the assessment of CCO, an intrinsic part of assessing the competence and capability of the expert is a consideration of the practitioner's experience of working with them in the delivery of their work, as well as assessing the quality of the work performed at completion. Similarly, considerations around objectivity may change because of changes in the circumstances of the expert or their host organisation. We therefore suggest that the application material for both 390.6 and 5390.6 should be expanded to reflect that the practitioner's engagement with the expert provides a further basis for evaluating their competence and capability.

3. *Do respondents agree that if an external expert is not competent, capable or objective, the Code should prohibit the PA or SAP from using their work?*

The FRC agrees that PAs or SAPs should be prohibited from using the work of external experts if the expert in question is considered to lack competency, capability, or objectivity. It would be a fundamental breach of ethical principles for the work of an external expert to be knowingly used in such circumstances.

Evaluation of CCO for all Professional Services and Activities

4. *In the context of an audit or other assurance (including sustainability assurance) engagement, do respondents agree that the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts? If not, what other considerations would help to address the heightened public interest expectations?*

The FRC agrees that the provisions for evaluating an external expert's objectivity go much of the way to providing the necessary level of rigour to meet public interest expectations. We agree that it would not be practical to require external experts to establish a system of quality management to support their own system of quality management to support objectivity considerations.

However the ED could do more to remind practitioners of the need to exercise professional scepticism. The objectivity assessment includes the consideration of information requested by the PA and SAP, which the practitioner is then permitted to accept in good faith. While the ED suggests useful content for these representations, it would be helpful to include application material in 390.11 and 5390.11 to remind practitioners of the overarching principle set out in the Conceptual Framework in R120.5(a). It would be particularly valuable to remind SAPs from non-accountancy backgrounds of this principle.

Potential Threats Arising from Using the Work of an External Expert

5. *Do respondents support the provisions that guide PAs or SAPs in applying the conceptual framework when using the work of an external expert? Are there other considerations that should be included?*

The FRC supports the provisions for assisting PAs and SAPs to apply the Code's conceptual framework when using the work of an external expert.

General comments

We have no comments on the matters set out in paragraph 121 of the EM.