

30 April 2024



# Response to the IESBA Exposure Draft: Using the Work of an External Expert



# 1. Introduction

The Institute of Chartered Accountants of Scotland (ICAS) is a global, professional membership organisation and business network for Chartered Accountants. It's also an educator, regulator, examiner and a professional awarding body.

ICAS' diverse membership is made up of over 23,000 world class business professionals who work in the UK and in more than 80 countries around the globe. Members of ICAS are also known by the letters CA, an exclusive professional designation in the UK.

ICAS members operate at the forefront of ethical and sustainable business. Educated, regulated, and led by the highest standards of ethical leadership since 1854, they are at the top of their game. They are trusted professionals, that transform business and support one another for the greater good.

Acting in the public interest is the guiding principle of all that ICAS does and we continually work to maintain trust in the finance profession. That ethos is enshrined in the ICAS Code of Ethics – which applies to all members, students and member firms, and is underpinned by our Royal Charter commitment.

ICAS is a member of the Chartered Accountants Worldwide Network, a global family that brings together the members of 15 leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

We have considered the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: 'Using the Work of an External Expert' and our comments are included below.

# 2. Key Points

We agree with the International Ethics Standards Board for Accountants (IESBA) that using the work of an external expert might create threats to a Professional Accountant's (PA's) or Sustainability Assurance Practitioner's (SAP's) compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care, and we welcome that it is proposed that a principles-based approach be adopted.

We note that paragraph 9 of the Explanatory Memorandum then goes on to say: "The proposed new sections 390, 290 and 5390, therefore establish an ethical framework to guide PAs in public practice and in business, and SAPs, respectively, in evaluating whether an external expert has the necessary competence, capabilities and objectivity (CCO) for the PA or SAP to use the expert's work for the intended purposes."

We further note that paragraph 390.7 A1 states that for audit and assurance engagements (with equivalent wording in paragraph 5390.7 A1 for SAPs): "Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in an audit or other assurance engagement. Therefore, paragraphs R390.8 to R390.11 set out further actions in evaluating the objectivity of an external expert in an audit or other assurance engagement pursuant to paragraph R390.6."

We agree conceptually with the proposed CCO approach, and we support that the evaluation of external experts in an audit or assurance engagement be performed through the lens of objectivity; however, we feel that the proposed provisions stray into a primary focus on

independence rather than objectivity in Sections 390 and 5390. Whilst paragraphs 390.7 A1 (and 5390.7 A1) say the focus is on objectivity, the provisions which follow in paragraphs R390.8 to 390.11 A2 (and paragraphs R5390.8 to 5390.11 A2) effectively appear to require a PA/SAP to apply an independence test. We have concerns that, at these early stages for sustainability reporting and assurance, where there is going to be increasing use of experts in other areas, this focus on 'independence' might reduce the marketplace of experts available to work with PAs and SAPs because they will be unable, or unwilling, to meet all the 'independence' requirements. If there is no legal requirement for them to do so, why would they sign up to providing all the information required in paragraphs R390.8 to 390.11 A2 (and R5390.8 to 5390.11 A2)? We believe there is instead a need to focus on professional judgement being appropriately applied to assess objectivity rather than strict adherence to independence rules per se.

We also believe that in relation to sustainability-related assurance services there is a need to allow for a transition period from where we currently are to where we want to be in relation to the applicable ethics framework. For now, given the less mature state of the sustainability assurance market there should be a focus on objectivity rather than focusing on detailed independence requirements that need to be signed off.

We also believe that ongoing co-ordination and discussions between IESBA and the International Auditing and Assurance Standards Board (IAASB) are essential to ensure appropriate alignment between International Standard on Sustainability Assurance (ISSA) 5000 and the proposed revisions to the IESBA Code of Ethics for Professional Accountants (including International Independence Standards).

### 3. Responses to the specific questions

#### **Glossary**

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

##### *Definition of expertise*

We are supportive of the proposed definition of 'expertise' as 'knowledge and skills in a particular field', and the IESBA's view (noted in the Explanatory Memorandum paragraph 37) that 'experience is a complementary factor that strengthens confidence in the expert, besides the expert's expertise (knowledge and skills)' and is therefore distinguishable from 'expertise'.

##### *Definition of expert*

We note that the IESBA defines 'expert' as follows:

'An individual possessing expertise that is outside the professional accountant's or sustainability assurance practitioner's competence. Where appropriate, the term also refers to the individual's organization.'

Paragraph 40 of the Explanatory Memorandum states: 'This approach recognizes that an expert might need to be used when the PA or SAP lacks sufficient expertise to perform a professional activity or service.' We are not convinced of the appropriateness of the word 'competence' in the first sentence of the definition, which might imply 'incompetence', rather than a lack of sufficient expertise, or knowledge or skills, in a particular area.

This would also be more in line with paragraphs 290.4 A1 and 390.4A1: "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 activity for which the accountant has insufficient expertise."

We would therefore suggest amending the definition as follows:

‘An individual possessing expertise that is outside the professional accountant’s or sustainability assurance practitioner’s **field of expertise/knowledge and skills in a particular field**~~competence~~. Where appropriate, the term also refers to the individual’s organization.’

We also believe the second sentence should be consistent with language within the body of the Code – for example paragraph 290.6 A6 states: “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 ...”

We therefore suggest the following amendment:

‘Where appropriate, the term also refers to the individual’s **employing organization**.’

#### *Definition of an ‘external expert’*

An external expert is defined in the Glossary as:

“An expert engaged by a professional accountant’s employing organization or firm, or by a sustainability assurance practitioner.”

We are supportive of the proposed definition of ‘external expert’ to explicitly refer to those who are engaged (i.e. hired) by an employing organisation, firm or SAP, and to distinguish between external experts used in an audit engagement vs an assurance (including a sustainability assurance) engagement.

We do however have some concerns that the term ‘engaged by’ on its own in the Glossary may lead to some confusion as to what IESBA means without the further clarification that is provided in paragraph 41 of the Explanatory Memorandum. We therefore suggest that the definition be amended as follows:

“An expert engaged (**i.e. hired**) by a professional accountant’s employing organization or firm, or by a sustainability assurance practitioner.”

We also suggest it might be helpful to include Appendix 1 of the Explanatory Memorandum ‘Flowchart for Experts Used in an Audit Engagement’ in guidance to the Code to assist users of the Code.

#### *Paragraph 320.11 A2*

We note paragraph 320.11 A2 states the following: “320.11 A2 When a professional accountant intends to use the work of an **expert**, the requirements and application material set out in Section 390 apply.”

As Section 390 relates to ‘Using the work of an external expert’ we suggest, for consistency, that paragraph 320.11 A2 also refers to an “external expert”:

‘320.11 A2 When a professional accountant intends to use the work of an **external expert**, the requirements and application material set out in Section 390 apply.’

#### *Industry or other benchmarking data or studies*

Paragraph 390.4 A4 (b) (and paragraph 5390.4 A4) states the following:

“390.4 A4 (b) The use of information provided by individuals or organizations that are external information sources for general use. 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.

We believe a PA or SAP would still have to assess the CCO of such service providers at some level before they use their data. At the very least, we suggest a reference to paragraphs R220.7 and 220.7A1 in this paragraph and paragraph 5390.4 A4 (as the Explanatory Memorandum paragraphs 99 to 102) to assist users of the 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? See Section V.**

#### ***Agreeing the Terms of Engagement***

In general, we are supportive of the approach regarding evaluating an expert's competence, capabilities and objectivity, however, in terms of the timing of the CCO evaluation, we would prefer the evaluation to occur prior to commencement of the external expert's work wherever possible. We understand that not precluding the external expert from beginning the work while the CCO evaluation proceeds, is a pragmatic approach being adopted by IESBA. However, we note that this approach may also create potential threats. For example, what happens if something is uncovered about the external expert just prior to something being signed off – pressure may be exerted to overlook such discoveries.

Paragraph 66 of the Explanatory Memorandum states the following:

“66. Therefore, the IESBA is proposing that the Code does not preclude the external expert from beginning the work while the CCO evaluation proceeds simultaneously, provided that the external expert has agreed to the terms of engagement to provide all the information necessary to facilitate the evaluation. Proposed paragraph R390.6 is drafted in such a way as to allow for that possibility from an operability perspective. This wording is aligned with ISA 620, paragraph 9, “The auditor shall evaluate whether the auditor's expert has the necessary CCO for the auditor's purposes.”.

The IESBA proposes that ‘the Code does not preclude the external expert from beginning the work while the CCO evaluation proceeds simultaneously, provided that the external expert has agreed to the terms of engagement to provide all the information necessary to facilitate the evaluation.’ However, we do not believe this intention as to timing of the engagement letter and the CCO evaluation is clear in the Code and the wording (in red below) could purposefully be added to paragraph R290.5 (and paragraphs R390.5 and R5390.5) to make IESBA's expectations clear. We also suggest that paragraph R290.5 reflects the wording in paragraph R390.5 in terms of the external expert agreeing to the terms of engagement to provide all the information to facilitate the evaluation (in purple) because whether they are a PA (in business or practice), or a SAP, if they cannot confirm that the external expert is competent, capable and objective they should not be using the work of that expert:

“290.5 If the professional accountant has identified an external expert to use for a professional activity, **prior to the commencement of work by the external expert** the accountant shall 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) **the provision of information needed from the external expert for the purpose of assisting the accountant's evaluation of the external expert's competence, capabilities and objectivity.**”

“R390.5 If the professional accountant has identified an external expert to use for a professional service, **prior to the commencement of work by the external expert** 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 or other assurance engagements, the provision of information needed from the external expert for purposes of assisting the accountant's evaluation of the external expert's competence, capabilities and objectivity."

### ***Evaluation of CCO***

We are generally supportive of the proposed factors to be considered when assessing competence, capabilities and objectivity.

We note some comments/suggested wording changes in respect of certain paragraphs in Sections 290, 390 and 5390 below:

#### *Paragraph 290.6 A2*

We suggest the following bullets could be added:

"

- Whether the expert's work is subject to inspection and quality assurance by a professional or regulatory body.
- Whether the expert is subject to continuing professional development or equivalent requirements.
- Whether the external expert has adequate professional indemnity insurance."

#### *Paragraph 290.6 A3*

Please see suggested additional wording in red below:

"290.6 A3 Factors that are relevant in evaluating the capabilities of the external expert include:

- The resources, **including people and technology**, available to the external expert.
- Whether the external expert has sufficient time to perform the work."

#### *Paragraph 290.6 A4*

Please see suggested wording in red below. Also, is clarification required in the second bullet re what the 'entity' is in this context?

"290.6 A4 Factors that are relevant in evaluating the objectivity of the external expert include:

- Whether the external expert is subject to **ethical** standards issued by a **recognised** body responsible for issuing such standards in the external expert's field of expertise.
- Whether the external expert or their employing organization has a conflict of interest or other **personal interest** in relation to the work the external expert is performing at the entity.
- Whether the professional accountant knows or is aware of any bias that might affect the external expert's work.
- 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 undertaking the work."

#### *Paragraph 290.6 A5*

Would 'compensation, fees and incentive arrangements' from the employing organisation all be applicable to an external expert?

"290.6 A5 Other interests that might impact the level of threat to an external expert's objectivity include significant financial interests such as those arising from compensation, fees or incentive arrangements linked to financial and non-financial information and decision making."

*Paragraph 290.6 A6*

We would suggest focusing first on the self-review threat which we believe to be the most pertinent at present in relation to non-PAs providing sustainability assurance services i.e. change the ordering of the potential threats.

Also, as above, is clarification required in these bullets re what the 'entity' is in this context? Should 'entity' be replaced by 'the professional accountant's employing organisation'?

"290.6 A6 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 for the entity which is then used by the external expert in performing the work or is the subject of that work."

*Paragraph 290.10 A1*

Please see suggested wording changes in red below:

"Evaluating Threats

290.10 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 **activity engagement**.
- The nature of the professional activity 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, other experts**, 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 employing organization to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work."

*Paragraph 390.4 A2*

Please see suggested wording change in red below:

"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 **a** service."

*Paragraph 390.5 A1*

Should there be something on fees – i.e. not based on a contingent basis?

“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 approach to the work.
- Expectations regarding confidentiality of the external expert’s work and the inputs to that work.
- The expected content and format of the external expert’s completed work, including any assumptions made and limitations to that 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.”

*Paragraph 5390.4 A3*

Should all the examples in this paragraph not be specifically sustainability-related?

“5390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by a sustainability assurance practitioner. 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, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.”

*Paragraph 5394.4 A4 (b)*

Should all the examples in this paragraph not be specifically sustainability-related?

“5394.4 A4 (b) The use of information provided by individuals or organizations that are external information sources for general use. 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.”

*Paragraph R5390.8 (h)*

Could paragraph R5390.8 (h), (i) and (ii) be combined?

“(h) Any position 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, or the records underlying such information:

- (i) Held by the external expert or their immediate family;
- (ii) Held or previously held by the external expert; or
- (iii) Held or previously held by management of the external expert’s employing organization;”

*Paragraph R5390.11*

We do not understand the context of this paragraph. Is the location of the work not irrelevant – it is the entity on which the assurance service is being undertaken that is relevant. The following wording change is suggested (in red):

“R5390.11 ~~Where the sustainability assurance client is not the entity at which the external expert is performing the work,~~ The sustainability assurance practitioner shall also request the external expert to disclose, in relation to the period covered by the assurance report 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.

If the paragraph is trying to address a value chain-related issue, then we would suggest that, if the PA is using the work of an expert in that context, they would need to know about relationships both between the expert and the client and between the expert and the value chain entity before they can conclude.

**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? See paragraphs 67 to 74.**

We have concerns that, for an audit engagement, the requirement within paragraph R390.12 may cause issues with ISA 620 (paragraph 9 and related application material) where the auditor is required to evaluate whether the expert has the necessary competence, capabilities and objectivity, given that there is no equivalent to the prohibition contained within paragraph R390.12 i.e. in accordance with ISA 620, the PA can still assess what they could do to use the external expert's work or part of their work.

Whereas one might argue that the list provided in paragraph R390.8 should create a rebuttable presumption in relation to the objectivity of the expert concerned, in accordance with the spirit of ISA 620 we believe there is a need to allow flexibility and for the PA to have the ability to exercise professional judgement in their final assessment of CCO.

We believe that instead of the proposed 'binary test' in paragraph R390.12, a threats and safeguards approach would be more appropriate, proportionate and help to ensure there is sufficient availability of external experts.

***Evaluation of CCO for Audit or Other Assurance Engagements***

**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? See Section (V)(A).**

The provisions in paragraphs R390.8 to 390.11 A2 focus on 'independence'-related matters, despite paragraph 390.7 A1 stating that the focus is on 'objectivity'. Paragraphs R5390.8 to 5390.11 A2 for SAPs are also 'independence'-focused.

If the conceptual approach is intended to focus on independence, then this should be made clear in the Code.

We agree conceptually with the CCO, and we support the insistence that the evaluation of external experts in an audit or assurance engagement be performed through the lens of objectivity; however, we feel that the proposed provisions stray into a focus on independence rather than objectivity in Sections 390 and 5390. Whereas paragraphs 390.7 A1 (and 5390.7 A1) say the focus is on objectivity, the provisions which follow, in paragraphs R390.8 to 390.11 A2 (and paragraphs R5390.8 to 5390.11 A2), effectively appear to require a PA/SAP to apply an independence test.

In paragraph 86 of the Explanatory Memorandum, the IESBA states that it "does not expect that an external expert must set up, or have in place, a system of quality management similar to that expected for a firm or assurance practitioner." Can you expect external experts to provide all the information required in paragraphs R390.8 to 390.11 A2, and R5390.8 to 5390.11 A2, if they do not have a system of quality management in place? Might this have the consequence of reducing the pool of external experts who are willing to work with PAs and SAPs? Further, if the expert does not have such systems in place, how can the PA or

SAP rely on what they have been told? We believe that there should be some guidance on this point.

We have concerns that, at these early stages for sustainability, given that there is going to be increasing use of experts in other areas, this focus on 'independence' might reduce the marketplace of experts available to work with PAs and SAPs because they will be unable, or unwilling, to meet all of the 'independence' requirements. This could also impact smaller firms' ability to access external experts particularly as larger firms may have a greater ability to utilise internal experts. If there is no legal requirement for them to do so, why would they sign up to providing all the information required in paragraphs R390.8 to 390.11 A2 (and R5390.8 to 5390.11 A2)? We believe there is instead a need to focus on professional judgement around objectivity rather than independence.

We also believe that ongoing co-ordination and discussions between IESBA and IAASB are essential to ensure appropriate alignment between ISSA 5000 and the proposed revisions to the IESBA Code of Ethics for Professional Accountants (including International Independence Standards).

### ***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? See Section (VI)(A).**

As noted for paragraph R290.9 A1 above, should the self-review threat not also appear within paragraphs 390.14 A1 and 5390.14 A1?

Paragraph 70 in the Explanatory Memorandum states: "The IESBA considers that ultimately, an external expert's competence, capabilities and objectivity cannot be less relevant or lower in jurisdictions or fields with limited experts. The IESBA notes that where it is determined that there are no external experts available in a particular field or jurisdiction, the PA or SAP could consider:

- Using an expert from another jurisdiction.
- Consulting with the appropriate regulatory or professional body and ascertain the proper next steps."

Is this sufficiently clear in the Sections of the Code?



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