

Supplement 3 - Background Information for Breakout Session on Use of Experts

This supplement to the Briefing Note for IESBA's March and April 2023 Global Sustainability Roundtables includes additional background information for the discussion during the breakout session on *Use of Experts*.

Use of Experts by Professional Accountants for Sustainability Reporting and Assurance Engagements

1. Experts are increasingly being used by PAs in the preparation and presentation of financial and non-financial information, in audit and other assurance engagements, and non-assurance services such as advisory services. The IESBA anticipates that as demand for sustainability information and assurance on such information continues to increase rapidly, the use of experts in the sustainability field will also increase significantly.
2. Noting this growing trend, the IESBA's Use of Experts project will develop ethics and independence provisions as appropriate to the circumstances when PAs use experts. This project covers the use of experts in all fields or areas (i.e., not limited to sustainability).
3. Experts can be involved in many fields or areas. Those involved in more developed fields of expertise often already have codes of ethics or conduct governing their ethical behavior and standard of professional services.¹ Experts involved in emerging fields, such as in the reporting of sustainability information or in reporting relating to new technologies such as crypto assets, might not have professional bodies or established generally accepted practices. Such emerging fields might also involve a broad range of experts.²

Potential Ethical Framework to Guide Decision-Making When the Work of Experts is Used

4. The IESBA is seeking feedback on a potential ethics framework to guide PAs in their decision-making when they determine whether or not to use the work of an expert. This potential framework would apply to all experts (whether internally employed or externally engaged) used by the PA. It would guide the PA in determining whether to use the work of experts. Under this framework, the PA would:
 - (a) Consider how the expert will be used and therefore define the scope of the expert's work. Explanatory material and definitions would be added to the Code. Terms that might be defined include "expert" (e.g., an individual or organization that possesses expertise in a particular field or area) and "expertise" (e.g., skills, knowledge and experience in a particular field or area).
 - (b) Identify facts and circumstances that might create threats for a PA when undertaking a professional activity which incorporates the work of experts. Examples to illustrate such circumstances and the types of threats that might be created would be added to the Code.
 - (c) Evaluate whether the use of the experts' work by the PA is appropriate. Guidance would be introduced in the Code to detail the ethical dimensions to be assessed and evaluated by a PA

¹ For example: actuaries, engineers, fraud examiners, forensic accountants, lawyers, valuers, tax advisors, etc.

² For example: experts in sustainable development and corporate social responsibility might involve those used in the sales, compliance, quality, human resources, health and safety, environmental and purchasing departments of an organization.

on an ongoing basis when determining whether to (i) use the work of the expert, and (ii) continue using the work of the expert.

Experts Used in an Audit or Other Assurance

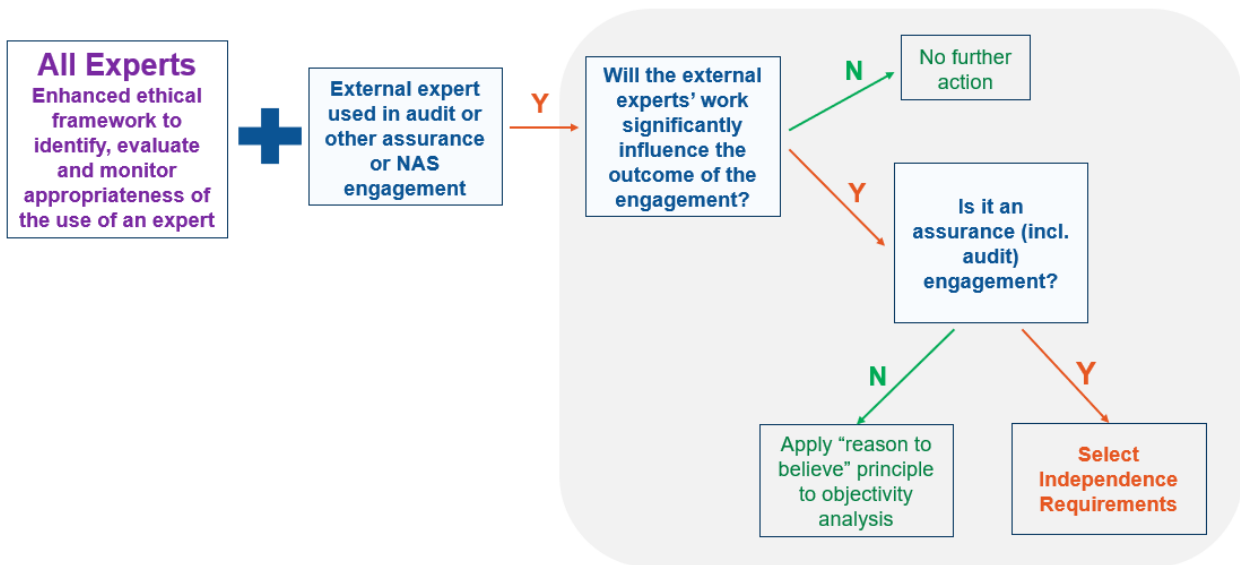
5. The key attributes needed for external experts used in audit or other assurance engagements are (i) objectivity, and (ii) competence and capabilities. There is also a strong public interest perception that external experts used in an audit or other assurance engagement must be objective (which is linked to independence) in carrying out their work. This is because an external expert's objectivity directly influences whether their work is reliable, sufficient and appropriate to use. This perception has become increasingly important as sustainability assurance demands accelerate and the use of experts by sustainability assurance providers becomes prevalent.
6. In this context, the potential ethics framework outlined above would provide the PA with a roadmap to:
 - (a) Assess how the objectivity of the external expert might be impacted by relationships and circumstances between the external expert and the firm's client (for example, those that give rise to conflicts of interest or that stem from circumstances dealt with under the Code's independence provisions, such as holding financial interests in a client, etc.); and
 - (b) Determine whether or not the external expert has the appropriate competence and capabilities.
7. The concepts underpinning independence³ in the Code are fundamentally about the extension of guardrails to protect a PA's compliance with the fundamental principles of objectivity and integrity, and to enable the PA to exercise appropriate professional skepticism.
8. For those facts and circumstances impacting an external expert's objectivity that are addressed by certain independence provisions under the Code, the IESBA is seeking feedback on a potential approach to address how independence guardrails might be extended to assess the objectivity of external experts when their work is used in an audit or other assurance engagement. The PA would then be responsible for assessing the external expert's objectivity against the relevant independence provisions which would be established under the new standard.
9. The IESBA recognizes that independence requirements cannot be imposed upon the external expert as (i) it is a third party not under the control or supervision of the individual PA or the PA's firm, and (ii) such an external expert is not part of the audit or assurance team delivering the service. A PA might therefore consider whether it would be appropriate to contractually stipulate such independence requirements when engaging the external expert.
10. Taking into account these practical considerations, the proposed approach is a differentiated and scalable framework relevant to the nature of the expert's work and the significance of that work to the preparation and presentation of information, an audit, or other assurance engagement. In order to

³ Independence is linked to the fundamental principles of objectivity and integrity; and comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit team member's, integrity, objectivity or professional skepticism has been compromised.

allow appropriate scalability, this approach is hinged on whether the external expert’s work would significantly influence the outcome of the engagement. If so, and the engagement is an audit or other assurance engagement, then select independence provisions (be developed under this approach) would also apply to the external expert as an individual.

11. Under this approach, once a PA determines that an external expert’s work has significant influence on the outcome of an audit or other assurance engagement, the PA has to evaluate and determine if the external expert is objective through assessing the external expert’s compliance with the relevant independence provisions. Such an assessment helps the PA to determine whether the external expert’s work is reliable, sufficient and appropriate to use.
12. If the PA concludes that the external expert has not met the relevant independence requirements, this would mean that the external expert’s objectivity might be impacted. As a result, the external expert’s work cannot be used and the PA would need to consider whether to modify the audit or assurance procedures or engage another external expert to perform the work. The independence of the PA, the PA’s firm or its network firms would not be impacted.
13. A PA applying this approach⁴ when using an external expert would follow a decision-making process as set out below:



⁴ Applying the “reason to believe” principle, if the audit or other assurance team knows, or has reason to believe, that a relationship or circumstance involving the external expert is relevant to the evaluation of the external expert’s objectivity, the audit or other assurance team is required to apply the conceptual framework to identifying and evaluating threats to the external expert’s objectivity.