

Using the Work of an External Expert

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IESBA Global Webinar

Laurie Endsley, Task Force Chair and IESBA Vice-chair

Saadiya Adam, Task Force Member and IESBA Member

Kam Leung, IESBA Principal

Use of Experts Project – Why?

Current Position

What the Code addresses

- Independence for experts consulted on audit / assurance

What the Code does *not* address

- *External experts* whose work is used in audit / assurance
- External experts used for NAS
- External experts used by PAIBs

What ISAs address

- Competence, capabilities and objectivity of auditors' experts
- Management's experts



Desired Public Interest Position

What the Code should/will address

- Independence for experts consulted on audit / assurance
- Competence, capabilities and objectivity for external experts used in any professional service
- Additional rigor for *external experts* whose work is used in audit / assurance, including sustainability assurance engagements (SAEs)
- External experts used by PAIBs

Journey to Date

Stakeholder Engagement and Outreach



IAASB Coordination

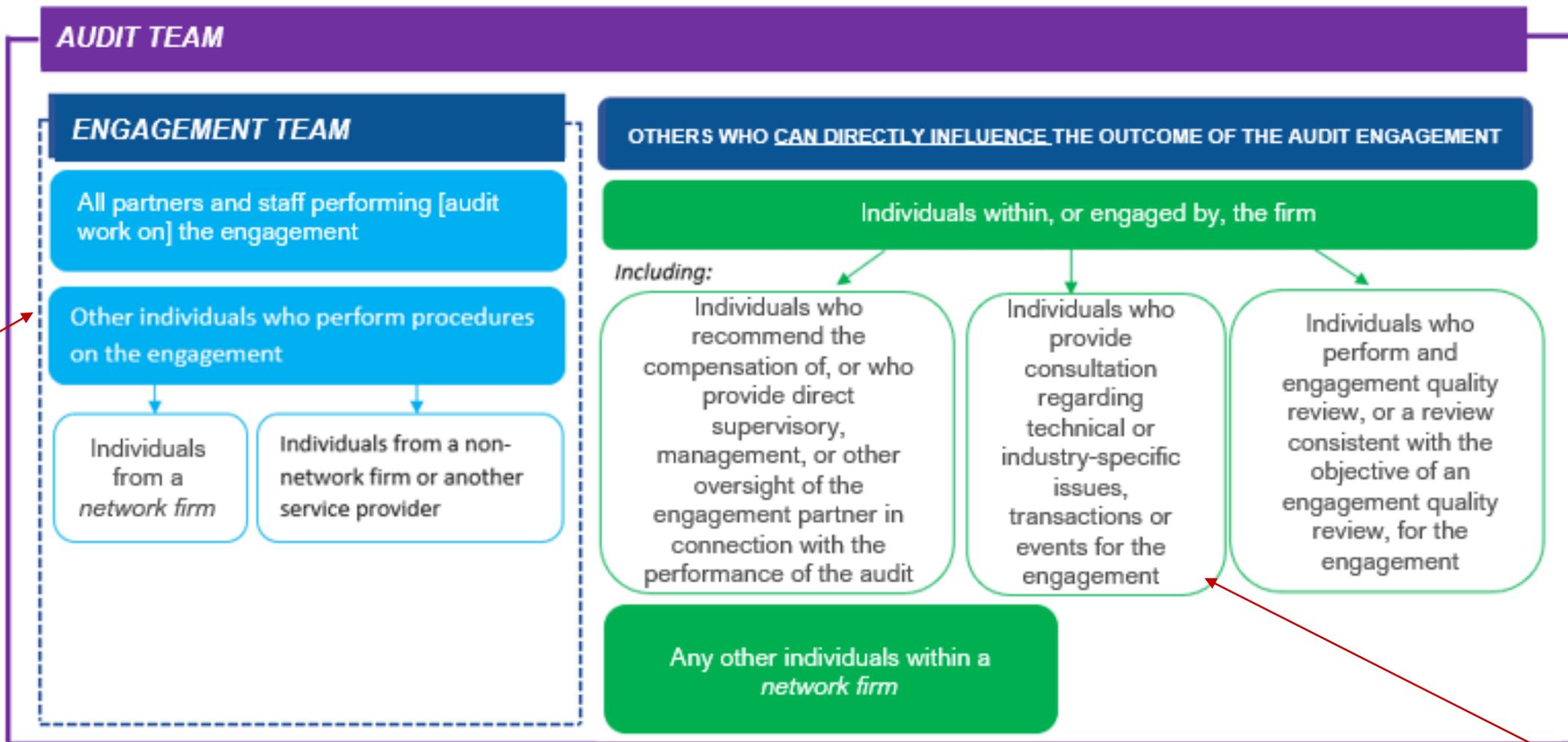
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- Proposals focus on ethics-related considerations versus the performance of audit or assurance procedures
 - Avoids conflict with
 - ISA 620
 - Other relevant IAASB standards
 - ISSA 5000 proposals
 - Finalization of IAASB’s ISSA 5000 to take into account developments from this project
 - IAASB’s Strategy and Work Plan for 2024-2027
 - Includes a project to consider possible narrow scope amendments because of this project

Recap – Issues Addressed by ET-GA Project



INDEPENDENCE REQUIRED FOR ALL ENGAGEMENT TEAM AND AUDIT TEAM MEMBERS

Experts within or engaged by the firm who **perform procedures** on the engagement



Experts within or engaged by the firm who can **directly influence the outcome** of the audit (assurance) engagement

Excluding:

External experts (as defined in the Glossary)

Internal auditors who provide direct assistance on the engagement

Individuals who cannot directly influence the outcome of the audit engagement

ET-GA Revisions – Guidance for Audit Engagements

400.11 An audit engagement **might involve experts within, or engaged by, the firm**, a network firm, or a component auditor firm outside a group auditor firm's network, who assist in the engagement. Depending on the **role** of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.

However, individuals who are **external experts are neither engagement team nor audit team members.**

Experts

Q8. Paragraph 400.11 provides examples of different types of experts who are engagement team or audit team members.

d) Paragraph 400.11 explains that individuals with expertise in analyzing complex information produced by automated tools and techniques who perform audit procedures to identify unusual or unexpected relationships are engagement team members. Does this mean that IT professionals such as data analysts and other individuals who gather data for purposes of the audit are part of the audit team?

A. Whether the IT professionals are part of the audit team **depends** on whether they are performing audit procedures. Audit procedures are performed to obtain audit evidence and comprise risk assessment procedures and further audit procedures.⁶ Audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.⁷ Therefore, if the individuals are gathering data as an audit procedure, they would be part of the engagement team and therefore the audit team.

b) If an individual who is an expert in taxation provides advice in relation to the audit engagement, would the individual be a member of the audit team?

A. This will **depend** on the particular facts and circumstances of the engagement with the expert, assuming the expert is not performing any actual audit procedures.

If the individual provides consultation regarding technical or industry-specific issues, transactions, or events that relate to, or have implications for, tax, the individual would be considered to be able to directly influence the outcome of the audit engagement. Thus, the individual would be part of the audit team under bullet (b)(ii) of the audit team definition.

If the individual provides legal advice on the interpretation of tax laws and regulations as an external legal expert (i.e., an individual outside of the firm with knowledge, skills and experience in a field other than accounting and auditing whose work in that field is used to assist the firm in obtaining sufficient appropriate evidence), that individual will not be part of the engagement team or the audit team.

Revisions to the Code Relating to the Definition of Engagement Team and Group Audit



General

Q1. For purposes of independence, which sections in Part 4A of the Code should a group auditor firm (GAF) and component auditor firms (CAFs) comply with in an audit of group financial statements?

A. Section 405 in Part 4A sets out the relevant independence requirements for the GAF, CAFs and the group audit team members. It specifies, as applicable, which independence provisions in the other Sections of Part 4A apply to them. The independence requirements referred to in ISA 600 (Revised),¹ or other relevant auditing standards applicable to group audits that are equivalent to ISA 600 (Revised), are those set out in Section 405.

Determination of the Engagement Team and Audit Team

Revised Definition of Engagement Team

Q2. Why did the IESBA delete the reference to individuals "engaged by the firm or a network firm" in revising the definition of engagement team?

A. The IESBA made the change to align the definition of engagement team in the Code with the revised engagement team definition in the International Standards on Auditing (ISAs).

In revising its engagement team definition as part of its Quality Management project, the International Auditing and Assurance Standards Board (IAASB) recognized that engagement teams might be organized in numerous ways, including being located together or across different geographic locations, or organized by the activity they perform. As long as individuals are performing audit procedures on the engagement and their work can be directed, supervised, and reviewed in accordance with the requirements of ISA 220 (Revised),² they are part of the engagement team regardless of their location or employment status. Accordingly, it is no longer relevant to refer to individuals being engaged by the firm or a network firm in the definition.

1. International Standard of Auditing (ISA) 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

2. International Standard of Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*

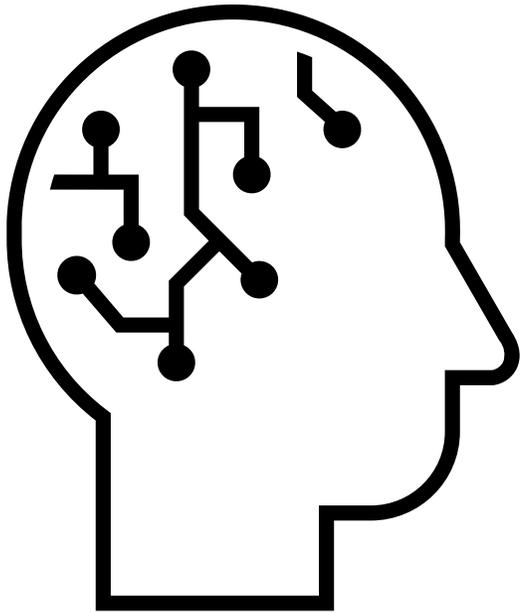
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This Questions and Answers (Q&A) publication is issued by the Staff of the International Ethics Standards Board for Accountants (IESBA). It is intended to help the adoption and implementation of the Final Pronouncement, [Revisions to the Code Relating to the Definition of Engagement Team and Group Audit](#), which was issued in February 2023.

This publication is designed to highlight, illustrate or explain aspects of the revised provisions and thereby assist in their proper application. It does not amend or override the Code, the text of which alone is authoritative. Reading the Q&As is not a substitute for reading the Code. The Q&As are not intended to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

Identifying an Expert in an Audit and Other Assurance Engagement





What experts can directly influence the outcome of an engagement, and are therefore audit team members?

Consultations – ISQM 1



Engagement Performance

31. The firm shall establish the following quality objectives that address the performance of quality engagements:
- (a) Engagement teams understand and fulfill their responsibilities in connection with the engagements, including, as applicable, the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement. (Ref: Para. A75)
 - (b) The nature, timing and extent of direction and supervision of engagement teams and review of the work performed is appropriate based on the nature and circumstances of the engagements and the resources assigned or made available to the engagement teams, and the work performed by less experienced engagement team members is directed, supervised and reviewed by more experienced engagement team members. (Ref: Para. A76–A77)
 - (c) Engagement teams exercise appropriate professional judgment and, when applicable to the type of engagement, professional skepticism. (Ref: Para. A78)
 - (d) Consultation on difficult or contentious matters is undertaken and **the conclusions agreed are implemented.** (Ref: Para. A79–A81)
 - (e) Differences of opinion within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management are brought to the attention of the firm and resolved. (Ref: Para. A82)
 - (f) Engagement documentation is assembled on a timely basis after the date of the engagement report, and is appropriately maintained and retained to meet the needs of the firm and comply with law, regulation, relevant ethical requirements, or professional standards. (Ref: Para. A83–A85)

Consultation (Ref: Para. 31(d))

- A79. Consultation typically involves a discussion at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, on difficult or contentious matters. An environment that reinforces the importance and benefit of consultation and encourages engagement teams to consult may contribute to supporting a culture that demonstrates a commitment to quality.
- A80. Difficult or contentious matters on which consultation is needed may either be specified by the firm, or the engagement team may identify matters that require consultation. The firm may also specify how conclusions are to be agreed and implemented.
- A81. ISA 220 (Revised)¹⁴ includes requirements for the engagement partner related to consultation.

Consultations – ISA 220 (Revised)



Consultation (Ref: Para. 35)

A99. ISQM 1 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may be appropriate or required, for example for:

- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
- Significant risks;
- Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
- Limitations imposed by management; and
- Non-compliance with laws or regulations.

A100. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm may be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.

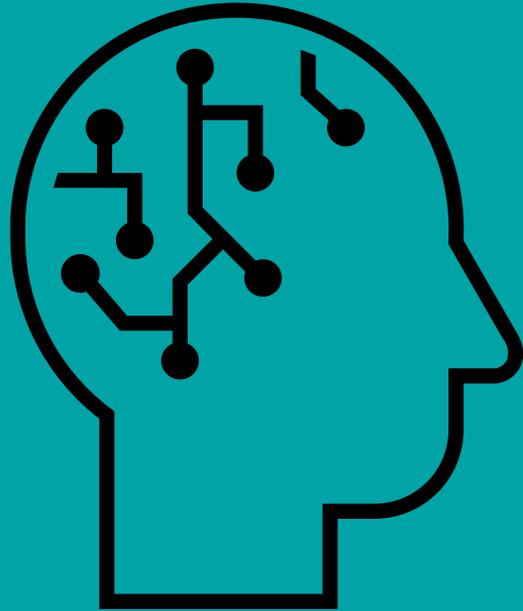
A101. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies or commercial organizations that provide relevant quality control services.

A102. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.⁴⁰

Consultation

35. The engagement partner shall: (Ref: Para. A99–A102)

- (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Difficult or contentious matters and matters on which the firm's policies or procedures require consultation; and
 - (ii) Other matters that, in the engagement partner's professional judgment, require consultation;
- (b) Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;
- (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and
- (d) Determine that conclusions agreed have been implemented.



1. Have an Inquiring Mind
2. **Exercise Professional Judgment**
3. Apply the Reasonable and Informed Third Party Test



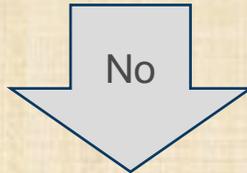
What questions might a PA ask to identify whether an expert is an:

- a) Engagement team member;
- b) Audit team member;
- c) External expert; or
- d) Internal expert?

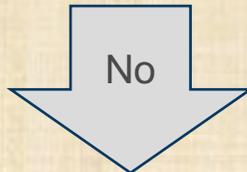
1. Is the expert engaged by the firm?



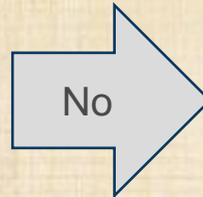
2. Is the expert performing audit procedures?



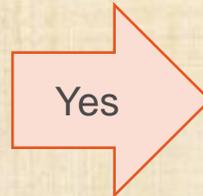
3. Is the expert providing consultation such as in accordance with ISA 220 (Revised)?



4. Is the expert performing work, with expertise outside of accounting or auditing, to assist you in obtaining sufficient appropriate audit evidence?

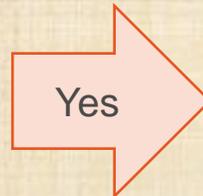


EXPERT EMPLOYED BY THE FIRM
(cont'd on next slide)



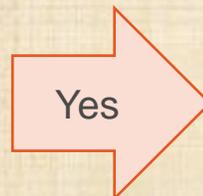
ENGAGEMENT TEAM MEMBER

Independence Required (Part 4A of Code)



AUDIT TEAM MEMBER

Independence Required (Part 4A of Code)



EXTERNAL EXPERT

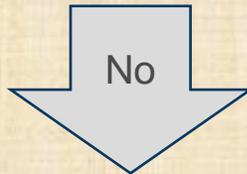
Independence through lens of Objectivity
(Proposed S390)

EXPERT EMPLOYED BY THE FIRM (cont'd from previous slide)

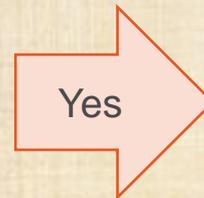
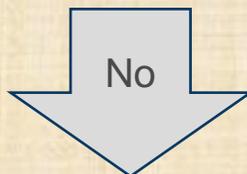
1. Are you using the work of an expert employed by the firm?



2. Is the expert performing audit procedures?

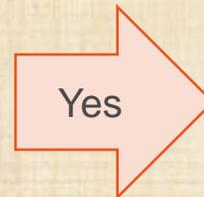


3. Is the expert providing consultation such as in accordance with ISA 220 (Revised)?



ENGAGEMENT TEAM MEMBER

Independence Required (Part 4A of Code)



AUDIT TEAM MEMBER

Independence Required (Part 4A of Code)

INTERNAL EXPERT

Subject to the:

- a) Firm's systems of quality management; and
- b) Provisions of the Code



External Experts – Overview of Proposed Scope and Approach



Proposed Ethical Framework and Approach

Definitions Introduced for “Expert” and “Expertise”

- Distinguish the work of experts from the work of other individuals or organizations providing information for general use

Evaluating the External Expert

- Focused on the external expert’s competence, capability and objectivity (CCO)
- Work of an external expert cannot be used if it does not meet CCO thresholds

Evaluating External Experts in Audit or Assurance

- Additional objectivity requirements to evaluate interests and relationships based on Parts 4A/4B independence attributes

Potential Threats When Using the Work of an External Expert

- Provisions to guide identifying, evaluating and addressing potential threats to compliance with the fundamental principles



HEIGHTENED
PUBLIC
INTEREST
EXPECTATIONS

Proposed New and Revised Definitions



- Proposed new definitions
 - Expertise
 - Expert
- Proposed revised definition
 - External Expert

Proposed New Definition: Expertise

- 
- Proposed new definition
 - Aligned with Dictionary usage of expertise
 - Differential with ISA 620 (removed “**experience**”)
 - IAASB coordination on matter and no concern raised
 - Element of experience is a factor that is important to demonstrate or assess whether an expert really has the expertise (knowledge and skills)

“Expertise – Knowledge and skills in a particular field.”

Proposed New Definition: Expert

- Introduce new proposed definition
- Benchmarked against the PA's own competence
- Term is used throughout the Code already

“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.”

Proposed Revised Definition: External Expert

- Underlying concepts **continue to align** with the ISAs and ISAE/ISSA and the extant Code and proposed Part 5 definitions for ET/AT
- External Expert in:
 - Audit engagements, possesses expertise in a field **other than accounting or auditing**
 - Assurance engagements, including sustainability assurance engagements, possesses expertise in a field **other than assurance**
 - **Excludes** [an engagement leader], a partner or a member of the professional staff, including temporary staff, of the firm or a network firm
- Work in that field is used to assist the PA/SAP in **obtaining sufficient appropriate [audit] evidence**
- **NOT** members of the engagement team, audit team, review team, assurance team, or sustainability assurance team

Agreeing the Terms of Engagement (R390.5)

to the extent not otherwise addressed by law, regulation or other professional standards

Nature, scope and objectives

General approach, intended use and timing, expected content and format

Expectations on Confidentiality

Expectations on communication of NOCLAR

In context audit or other assurance engagements, expectations on information needed

Whether to Use the Work of an External Expert

Basic Premise

- (p. R390.6) “The PA shall evaluate whether the external expert has the necessary competence, capabilities, and objectivity for the accountant’s purpose.”
- (p. R390.12) “The PA **shall not** use the work of the external expert if:
 - (a) The accountant is unable to obtain the information needed for the accountant’s evaluation of the external expert’s competence, capabilities and objectivity; or
 - (b) The accountant determines that the external expert is not competent, capable or objective.”

Applicability to Team and Organization

Team (p R390.9)

Organization or
immediate family
(p 390.6 A4,
R390.8 and
390.11 A1)

- Evaluation of the external expert's CCO envisioned to be conducted with respect to the individual who oversees the expert work
 - Recognizes that an external expert might have a supporting team
 - External expert's responsibility to determine what support from the team is needed to perform the work
- Additionally recognizes that certain interests, relationships or circumstances held by the external expert's
 - Team
 - Organization
 - Immediate family in the entity at which the external expert is performing the work

could impact the external expert's objectivity

External Experts in Audit/Assurance

- Additional objectivity evaluation of key independence attributes focused on entity at which the external expert is performing work (p R390.8)
- Requiring objectivity of an external expert concerning entities at which the external expert is not performing work would be unduly onerous
 - Requires establishment of comprehensive, reliable and effective systems of quality management to monitor such interests and relationships
- Notification mechanism focused on other interests and relationships between the external expert and the client (p R390.11)

Additional objectivity evaluation addresses the most direct threats to objectivity

Notification mechanism to capture other threats to objectivity

Objectivity Evaluation (p. R390.8)

Based on
independence
attributes in
Parts 4A/4B

- PA required to request the external expert to:
 - In relation to the entity(s) at which the external expert is performing the work
 - With respect to the period covered by the audit or assurance report and the engagement period
 - Provide information about specific interests or relationships or circumstances
 - Aligned with the independence attributes set out in Parts 4A/4B of the Code
- PA **cannot simply accept** the information provided without appropriately applying the conceptual framework

Independence Attributes to Evaluate (p. R390.8)

- (a)** 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;
- (b)** 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;
- (c)** 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;
- (d)** 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;
- (e)** 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;
- (f)** Any previous or current engagements between the external expert or their employing organization and the entity;
- (g)** How long the external expert and their employing organization have been associated with the entity;
- (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;
- (i)** Any previous public statements by the external expert or their employing organization which advocated for the entity;
- (j)** Any fee or contingent fee or dependency on fees or other types of remuneration due to or received by the external expert or their employing organization from the entity;
- (k)** Any benefits received by the external expert, their immediate family or the external expert's employing organization from the entity;
- (l)** Any 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
- (m)** The nature and extent of any interests and relationships between the controlling owners of the external expert's employing organization and the entity.

Availability of Experts

Objectivity is an ethical principle, cannot be adjusted to a different threshold

- Stakeholder questions relating to circumstances or jurisdictions where there is a limited availability of external experts
- Introducing transparency as a mitigating action for using an unobjective expert would inadvertently create an “easy exit” and shift the accountability for the PA to evaluate the objectivity of an external expert to the stakeholders
- Competence, capability and objectivity of an expert cannot be less relevant or lower in jurisdictions/fields with a low number of external experts
- Where it is determined that there are no external experts available in a particular field or jurisdiction:
 - The PA could consider using an external expert from another jurisdiction, or the PA could also consider consultation with the appropriate independent regulatory body or professional body to address the issue and ascertain what are appropriate next steps
 - The PA might issue an opinion with a limitation in scope
 - IESBA to consider developing appropriate transitional provisions to accommodate the build-up of market capacity in due course if necessary

Potential Threats to the FPs

Threats to compliance with the FPs might still be created from using the work of an external expert even if a PA has satisfactorily concluded that the external expert has the necessary CCO for the accountant's purpose.

- Where a PA is using the work of an external expert, the PA shall **identify, evaluate, and address** any threats to compliance with the fundamental principles (p. 390.14 A1, 390.15 A1. 390.16 A1 and A2)

Self-interest

Self-review

Advocacy

Familiarity

Intimidation

Communication and Documentation

- (p. 390.20 A1) “The PA is encouraged to **communicate** with management, and where appropriate, TCWG:
 - The purpose of using an expert and the scope of the external expert’s work.
 - The respective roles and responsibilities of the PA and the external expert in the performance of the professional service.
 - Any threats to the PA’s compliance with the fundamental principles created by using the work of the external expert and how they have been addressed.”
- (p. 390.21 A1) “The PA is encouraged to **document**:
 - The results of any discussions with the external expert.
 - The steps taken by the PA to evaluate the external expert’s competence, capabilities and objectivity, and the resulting conclusions.
 - Any significant threats identified by the PA in using the external expert’s work and the actions taken to address the threats.”

Generally consistent with how the Code addresses matters of communication with TCWG and documentation in the context of professional services



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