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29 April 2024

Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 U.S.A.

Our Ref: 2024/O/C1/IESBA/PM/42

Subject Line: IESBA Exposure Draft: *Using the Work of an External Expert*

Dear Ken:

The International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or we) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (the IESBA or the Board) Exposure Draft: *Using the Work of an External Expert* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high-quality accounting, sustainability disclosure, auditing, assurance, ethics, independence, and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure, auditing, assurance, ethics and independence concerns, and pursuit of improved global financial and sustainability reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions. We appreciate the opportunity to comment on the Paper and have outlined our views regarding certain topics below.



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Overall Comments

We appreciate the Board’s initiative to develop the proposed revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) relating to using the work of an external expert given the growing involvement of external experts in areas such as estimates, technology and sustainability. We are supportive of both the scope of the project and the proposed requirements to subject external experts to independence requirements, similar to other individuals who are part of the engagement team, as we believe applying consistent independence requirements to all individuals involved in an audit or assurance engagement, including a sustainability assurance engagement, promotes high-quality engagements and investor confidence in the reporting of financial and other information.

We continue to encourage the IESBA to closely coordinate with the International Auditing and Assurance Standards Board (IAASB) (collectively the Boards) to address topics of mutual importance. Specifically, we encourage the Boards to closely coordinate their work towards consistency of definitions, terms and key concepts used by both Boards in their respective standards in order to promote interoperability, especially for non-Professional Accountants (non-PAs) who might be using the Boards’ standards for the first time.

We have included below certain matters, including specific suggestions and editorial edits, that we believe will further strengthen the Code and enhance its understandability.

Specific Comments

Glossary

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

We believe that there should be alignment between the IESBA and the IAASB on their definitions of “Expertise,” “Expert,” and “External expert”. More specifically, we note the following matters on the IESBA’s proposed definitions as considerations for the IESBA:

- The IESBA’s proposed definition of “Expertise” is “*knowledge and skills in a particular field.*” This definition diverges from the IAASB’s definition which defines the term as “*skills, knowledge, and experience in a particular field.*” We acknowledge that the



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IESBA’s view that “the element of experience is a complementary factor that strengthens confidence in the expert, besides the expert’s expertise (knowledge and skills)” and that “skills are inherently developed through experience.” However, we believe that the Boards should avoid unnecessary differences between their definitions in order to promote interoperability and avoid confusion.

- The IESBA’s proposed definition of “Expert” includes a statement that: “... *Where appropriate, the term also refers to the individual’s organization.*” We believe that an explanation should be provided regarding this statement and describe the circumstances where it would, or would not, be considered *appropriate* to refer to the individual’s organization.
- The IESBA’s proposed definition of “External Expert” includes specific paragraphs tailored to Part 3 (“*In the context of audit engagements...*”) and Part 5 (“*In the context of assurance engagements, including sustainability assurance engagements...*”). Since the term “External Expert” is also used in Part 2 of the Code, we believe the IESBA should include a similar paragraph tailored to the use of an external expert by professional accountants in business.

It is crucial for PAs and sustainability assurance practitioners (SAPs) that the term “External Expert” is clearly defined in the Code. From this perspective, “Appendix 1: Flowchart for Experts Used in an Audit Engagement” included in the Explanatory Memorandum (the EM) assists stakeholders in distinguishing between engagement team members, audit team members and external experts in the context of an audit engagement. We note that the Appendix 1 in the EM only addresses situations when a PA uses an expert in the context of an audit engagement and does not address situations when a SAP uses an expert in the context of a sustainability assurance engagement. We believe a similar flowchart in the context of a sustainability assurance engagement should be developed in order to promote appropriate and consistent application of the proposed provisions. Additionally, as we found the flowchart particularly helpful, we believe the IESBA should consider whether to include this flowchart (and the equivalent for a sustainability assurance engagement) in the application material in the Code.



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Evaluation of competency, capability, and objectivity (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 professional accountants in business (PAIBs), professional accountants in public practice (PAPPs) and sustainability assurance practitioners (SAPs)?*

We support the IESBA's overall approach regarding evaluating an external expert's CCO. However, we believe that the following matters should be further considered:

- We believe the IESBA should consider including a provision for circumstances where the nature, scope, and/or objective of the work to be performed by the external expert changes after the terms of the engagement have been agreed upon. While such circumstances may result in the need for new terms of engagement to be agreed upon, we believe that the IESBA should state in the application material that such changes in the nature, scope, and/or objective could result in circumstances where the PA or SAP may need to reevaluate the external expert's CCO and reevaluate threats that might be created from using the work of the external expert under the new circumstances.
- 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?*

Yes, we agree that if an external expert is not competent, capable, or objective, the Code should prohibit the PA or SAP from using his/her work.

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?*

We generally agree that the additional provisions relating to evaluating an external expert's objectivity are necessary to introduce an additional level of rigor to address the heightened public interest expectations concerning external experts in the context of an audit or other assurance (including sustainability assurance) engagement. We also support the IESBA's



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approach to scalability, that the fundamental principle of objectivity cannot differ for different clients (Public Interest Entities (PIEs) or non-PIEs), given that it concerns ethical behavior. However, we believe that some of these additional provisions should be strengthened as follows:

- The proposed requirements in paragraphs R390.8 and R5390.8 require the PA or SAP to request the external expert to provide, in relation to the entity at which the expert is performing the work and with respect to the period covered by the audit or sustainability assurance report and the engagement period, information about specific interests, relationships and circumstances between the external expert and the entity. We agree with the IESBA's approach to draw from the independence attributes in Parts 4A and 4B of the Code, and we support the requirements in the proposed text. However, we believe that the IESBA should also require the PA or SAP to request the external expert to provide information about gifts and hospitality (Section 420) and actual or threatened litigation (Section 430) in proposed paragraphs R390.8 and R5390.8.
- The proposed requirements in paragraphs R390.11 and R5390.11 describe circumstances where the client is not the entity at which the external expert is performing the work. These requirements, as proposed, are less stringent than the proposed requirements in paragraphs R390.8 and R5390.8. In order to strengthen the requirements in paragraphs R390.11 and R5390.11, we believe application material paragraphs 390.11 A1 and 5390.11 A1, should be elevated to the requirements.

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?*

We support the provisions that guide PAs or SAPs in applying the conceptual framework when using the work of an external expert. However, we believe that the following matters should be also considered or included in the Code:

- Paragraphs 290.9 A1, 390.14 A1, and 5390.14 A1 include examples of facts and circumstances that might create threats, including self-interest threats, advocacy threats, familiarity threats, and intimidation threats. We believe the IESBA should also consider whether to include examples of self-review threats within these paragraphs. Specifically, and as described within the conceptual framework, a self-review threat that the PA or



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SAP will not appropriately evaluate the results on which they will rely when forming a judgment as part of performing a current activity i.e., overreliance on the external expert. Another example of a self-review threat could be if the external expert is using the work of the PA or SAP to arrive at its own conclusions and subsequently the external expert's conclusions are relied upon by the PA or SAP.

- The proposed text includes provisions on addressing threats. However, we believe the provisions on addressing threats (paragraphs 290.11 A1-A2, 390.16 A1-A2, and 5390.16 A1-A2) should be updated to include a reference to paragraphs R120.10 to 120.10 A2 similar to the approach taken in paragraph 950.12 A1.

Other Matters

Communication with Management and Those Charged with Governance When Using the Work of an External Expert

Proposed paragraphs 290.15 A1, 390.20 A1 and 5390.20 A1 include provisions that *encourage* a PA or SAP to communicate with management, and where appropriate, those charged with governance (TCWG) when using the work of an external expert. We believe that the provisions to communicate “any threats to the accountant’s[practitioner’s] compliance with the fundamental principles created by using the external expert’s work and how they have been addressed” should be elevated to requirements, as such communications are important to the public interest.

Documentation

We believe the IESBA should consider the following matters related to documentation:

- Proposed paragraphs 290.16 A1, 390.21 A1, and 5390.21 A1 include provisions that encourage a PA or SAP to document the results of any discussions with the external expert, the steps taken to evaluate the external expert's CCO and resulting conclusions, and any significant threats identified in using the external expert's work and the actions taken to address the threats. We believe the IESBA should elevate the provisions in paragraphs 390.21 A1 and 5390.21 A1 to requirements. This would be consistent with the approach taken by the IESBA to documentation requirements for a PA in public practice in Part 3 of the Code (e.g., paragraphs R310.13 and R360.28) and application material paragraphs for a PA in business in Part 2 of the Code (e.g., paragraphs 220.10 A1, 260.23 A1, 260.27 A1, and 270.4 A1). Furthermore, similar to the provision in paragraph 360.28 A1, we believe that it is important to note that this documentation is in addition to



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complying with the documentation requirements under applicable auditing or assurance standards.

- We believe that the IESBA should require the documentation of any threats identified, not only significant threats, and safeguards and conclusions when safeguards are applied. This approach would be consistent with the IESBA’s approach to require documentation of any threats to independence in Parts 4A and 4B of the Code.

Review engagements

Part 3 of the Code sets out provisions that apply to professional accountants in public practice when providing professional services. We believe that the proposed provisions in Part 3 of the Code relating to the use of an external expert should be clarified as to whether they also apply to review engagements. For example, proposed paragraphs R390.5 and 390.7 A1 use the phrase: “*audit or other assurance engagements...*” Similarly, the definition of “External Expert” includes “*In the context of audit engagements...*” or “*In the context of assurance engagement, including sustainability assurance engagements....*”

Examples of previous judgments made or activities performed by an external expert that might create a self-review threat

Paragraph 5390.6 A5 includes examples of previous judgments made or activities performed by an external expert that might create a self-review threat to the external expert’s objectivity. We believe that it is important to clarify whether paragraph 5390.6 A5 includes value chain entities and value chain data, and if so, this should be clearly stated in order to promote consistent application.

Examples of specific work undertaken by an external expert

Paragraph 5390.4 A3 includes examples of specific work undertaken by an external expert for sustainability assurance engagements. It would be more helpful for a SAP that these examples for sustainability assurance engagements are updated to more sustainability specific examples.



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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to discuss these matters further, please contact Nigel James at phone number: +1 (202) 551- 5394 or email address: JamesN@sec.gov or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Paul Munter

Paul Munter
Chair, Committee on Issuer Accounting, Audit and Disclosure
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Appendix - Editorial Comments

Reference (s) of the Paper	Proposed Editorial Comments on the Paper
290.4 A2, 390.4 A2, 5390.4 A2	<i>“An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional activity who has the competence, capabilities and objectivity to deliver the work needed for such service [text deleted] <u>professional activity</u> [text added].”</i> We suggest this edit to align with the use of the term “professional activity” in the first part of this sentence.
290.4 A3, 390.4 A3, 5390.4 A2	<i>“Examples of such work include... The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, <u>complex financial instruments</u> [text added], environmental liabilities, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.”</i> Similar to the examples for the valuation of assets, we suggest adding complex financial instruments as an example for the valuation of liabilities as well as this is a common area where external experts may be used.
290.4 A4, 390.4 A4, 5390.4 A4	<i>“This section does not apply to the use of information provided by individuals or organizations that are external information sources for general use. They include, [text deleted] <u>For example,</u>...”</i> We suggest this edit to avoid potential misunderstanding caused by using both the phrases “does not apply” and “they include”.
290.5 A1, 390.5 A1, and 5390.5 A1	<i>“In agreeing the terms of engagement, matters that the professional accountant might discuss with the external expert include: ... The external expert’s general [text deleted] <u>planned</u> [text added] approach to the work.”</i> We suggest this edit because, in the context of agreeing to the terms of the engagement, this will occur before the work of the external expert begins.
290.6 A4, 390.6 A4, 5390.6 A4	We believe the IESBA, when listing factors that are relevant in evaluating the objectivity of the external expert should consider adding a factor related to undue influence of, or undue reliance on, individuals, organizations, technology, or other factors. See IESBA Code’s fundamental principle of objectivity as described in paragraph 110.1 A1(b)(3).
290.6 A6, 390.6 A5, 5390.6 A5	<i>“... <u>Having produced data or other information, or having designed, developed, implemented, operated, maintained, monitored, updated or upgraded an IT system,</u> [text added] for the entity which is then used by</i>



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	<p><i>the external expert in performing the work or is the subject of that work.”</i> We suggest this edit as we believe designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems by an external expert might also create a self-review threat to the external expert’s objectivity, and such threats are consistent with the self-review threats included in Parts 4A and 4B of the Code.</p>
R290.7(a), R390.12(a)	<p>“The accountant is unable to [text deleted] <u>has not</u> [text added] <u>obtained the information needed for the accountant’s evaluation of the external expert’s competence, capabilities and objectivity.</u>” We suggest this edit as to not imply the requirement is based on the ability/inability to obtain the information, but rather that the information needed has/has not been obtained. We suggest a similar edit in proposed paragraph R5390.12(a).</p>
290.10 A1	<p>“<i>Factors that are relevant in evaluating the level of such threats include... The impact of the external expert’s work on the professional accountant’s engagement [text deleted] <u>preparation and reporting of financial and other information</u> [text added].</i>” We suggest this edit to align with the concepts in Part 2 of the Code.</p>
R390.5(b)	<p>“<i>In the context of audit or other assurance engagements, the provision of [text deleted] information needed from the external expert for purposes of assisting the accountant’s evaluation of the external expert’s competence, capabilities and objectivity.</i>” We suggest this edit for clarity. We suggest a similar edit in proposed paragraph R5390.5(b).</p>
390.16 A2	<p>“<i>Examples of actions that might be safeguards to address threats include... Consulting with qualified personnel <u>at the accountant’s firm</u> [text added] who have the necessary expertise and experience to evaluate the external expert’s work, obtaining additional input, or challenging the appropriateness of the external expert’s work for the intended purpose.</i>” We suggest this edit to provide clarification as to who the professional accountant should consult with on this matter. We suggest a similar edit in proposed paragraph 5390.16 A2 by including “sustainability assurance practitioner’s firm.”</p>