

# IESBA's Exposure Drafts on Sustainability Reporting and Assurance and Using the Work of an External Expert

**APESB Roundtable**

*26 March 2024*



Accounting Professional & Ethical Standards Board

# Welcome



**Nancy Milne OAM**  
Chairman

# APESB Roundtable - Agenda

|          |   |
|----------|---|
| 10.00 AM | Welcome & Introduction  |
| 10.10 AM | Overview of International Ethics Standards for Sustainability Assurance<br>ED |
| 11.15 AM | Break   |
| 11.25 AM | Discussion in Groups  |
| 12.20 PM | Group Feedback  |
| 1.00 PM  | Lunch   |
| 1.30 PM  | Overview of Using the Work of an External Expert ED                           |
| 2.10 PM  | Discussion in Groups  |
| 2.30 AM  | Break   |
| 2.40 PM  | Group Feedback  |
| 3.00 PM  | Close   |

# Overview of International Ethics Standards for Sustainability Assurance ED



**Channa Wijesinghe**

APESB CEO &  
IESBA Member

# Agenda - Sustainability Standard

## 1) Sustainability Standards Infrastructure

- IESBA's role in promoting sustainability goals

## 2) IESBA Sustainability Exposure Draft

- a) Enhanced Ethics Standards for Sustainability Reporting
- b) International Ethics Standards for Sustainability Assurance (IESSA)
  - Deep Dive on International Independence Standards

## 3) Timeline and Next Steps

# Sustainability Standards Infrastructure

## Sustainability Reporting and Assurance

Standardised approach for **reporting** information



*Reliable, comparable and decision useful information*

### Reporting Standards

Standardised approach for providing independent **assurance**



*Credible and trustworthy information*

### Assurance Standards

**Ethical** mindset and behaviors to guide judgments and drive actions



*Trustworthy information that is factual and not misleading*



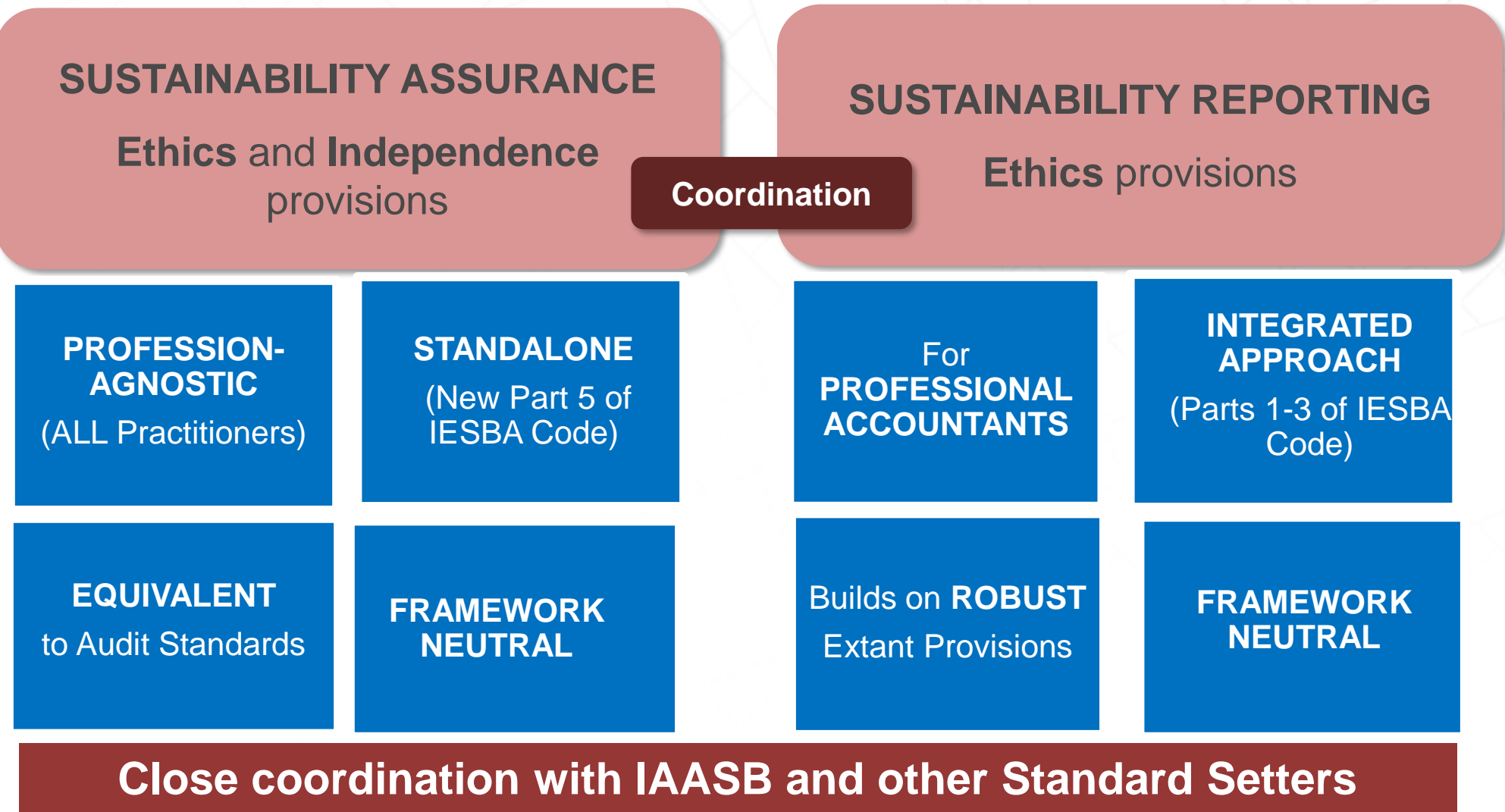
### IESBA – Ethics and Independence Standards

# Sustainability Project



- IESBA's Sustainability Project to develop:
  - a. Revisions to the Code to address the ethics issues that might arise in sustainability reporting; and
  - b. Ethics and independence standards for use and implementation by all sustainability assurance practitioners
- Informed by series of *Global Roundtables* in 2023
- Complemented by *IESBA's Use of Experts Project*
- Close coordination with *IAASB's Sustainability Project* aiming to develop new overarching standard for sustainability assurance
- Input from sustainability reporting and assurance experts through *IESBA's Sustainability Reference Group*

# Sustainability Exposure Draft





# Enhanced Standards for Sustainability Reporting



**Geoff Kwan**  
IESBA Director

# Sustainability Reporting - Approach

## SUSTAINABILITY REPORTING Ethics provisions

**INTEGRATED  
APPROACH**  
(Parts 1-3 of IESBA  
Code)

For  
**PROFESSIONAL  
ACCOUNTANTS**

Builds on **ROBUST**  
Extant Provisions

**FRAMEWORK  
NEUTRAL**

## Phased Approach:

- The IESBA will explore developing profession-agnostic ethics standards for sustainability reporting commencing 2025
- The IESBA's ethics standards can be applied voluntarily by **all preparers of financial and sustainability information** in the meantime

# Sustainability Reporting – Enhanced Ethics Provisions

Reinforcing the first line of defense against “greenwashing” and other corporate malfeasance



Truthful, high-quality corporate sustainability disclosures

Applying the conceptual framework in context of sustainability reporting

Conflicts of interest

Preparation and presentation of information

Financial interests, compensation and incentives linked to sustainability reporting

Pressure

# Sustainability Reporting – Enhanced Ethics Provisions

**Revisions to Section 220 *Preparation and Presentation of Information*** expand existing material to include:

- “collecting” information – such as from the value chain
- “measuring” information – such as methods, metrics and estimations
- “impacts” of business transactions and activities

**New proposed examples to address matters relating to:**



# IESSA - International Ethics Standards for Sustainability Assurance (including International Independence Standards)



**Channa Wijesinghe**

APESB CEO &  
IESBA Member

# Main Characteristics of Proposed IESSA

## **SUSTAINABILITY ASSURANCE** **Ethics and Independence** provisions

Designed to be understood and applied by all practitioners, including those who are not PAs

**PROFESSION-AGNOSTIC**  
(ALL Practitioners)

**FRAMEWORK NEUTRAL**

Goal is also to underpin any reporting or assurance framework used to prepare or assure the sustainability information

Same high standards of ethical behavior and independence that apply to audits of financial information under the IESBA Code (in Parts 1 to 4A)

**EQUIVALENT**  
to Audit Standards

**STANDALONE**  
(New Part 5 of IESBA Code)

Best option to achieve profession-agnostic objective and ensure alignment with PIF characteristics



# The IESBA Code

For Professional Accountants

## PART 1

**Complying with the Code, the Fundamental Principles, and the Conceptual Framework**

(All Professional Accountants)  
**Section 100–199**

## PART 2

### **Professional Accountants in Business (PAIBs)**

Part 2 is also applicable to individual PAPPs when performing professional activities pursuant to their relationship with the firm

**Section 200–299**

## PART 3

**Professional Accountants in Public Practice (PAPPs)**

**Section 300–399**

## PART 4A

### **International Independence Standards**

Independence for Audits and Reviews

**Section 400–899**

## PART 4B

### **International Independence Standards**

Independence for Assurance Engagements other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5

**Section 900–999**

**NEW**

**For Sustainability Assurance Practitioners**

## PART 5

**International Ethics Standards for Sustainability Assurance (including international Independence Standards)**

For Sustainability Assurance Engagements Scoped to Part 5

**Section 5100–5700**

# Applicability

Proposed IESSA applies when a **sustainability assurance practitioner** performs an **assurance engagement** on **sustainability information**

IESSA consists of ethics and independence standards

## *New defined terms in the Glossary of the Code*

### ❖ **Sustainability Assurance Practitioner**

- Includes all practitioners, including PAs and non-PAs

### ❖ **Sustainability Information**

- Broad and sufficiently generic to be perennial and interoperable with various reporting and assurance standards (including proposed ISSA 5000)
- \*\*Also relevant for sustainability reporting\*\*

### ❖ **Sustainability Assurance Engagement**

- An engagement designed to enhance the degree of confidence of the intended users about the sustainability information
- Can be either limited or reasonable assurance



# Ethics Standards in Part 5



**Geoff Kwan**  
IESBA Director

# Scope of Ethics Standards

## What is covered by Part 5

All sustainability assurance  
engagements

&

Any other engagements by the  
sustainability assurance practitioner for  
the same sustainability assurance client

## Services/activities not covered by Part 5

**If practitioner is a PA:** Explicit reminder that  
Parts 1 to 4B of IESBA Code apply

**If practitioner is a non-PA:** Encouragement to  
apply Parts 1 to 4B of IESBA Code (or others at  
least as demanding) in all situations not  
covered by Part 5 – because other aspects of  
conduct of the practitioner may contribute to  
(or impair) credibility and public trust in the  
practitioner's sustainability assurance work

# Ethics Provisions

Interests, relationships and circumstances that might create threats to the fundamental principles in the context of an audit of financial statements might also create similar threats in a sustainability assurance engagement

**Ethics Standards in Part 5** include specific examples tailored by and for sustainability assurance practitioners

Fundamental Principles & Conceptual Framework

Pressure to Breach the Fundamental Principles

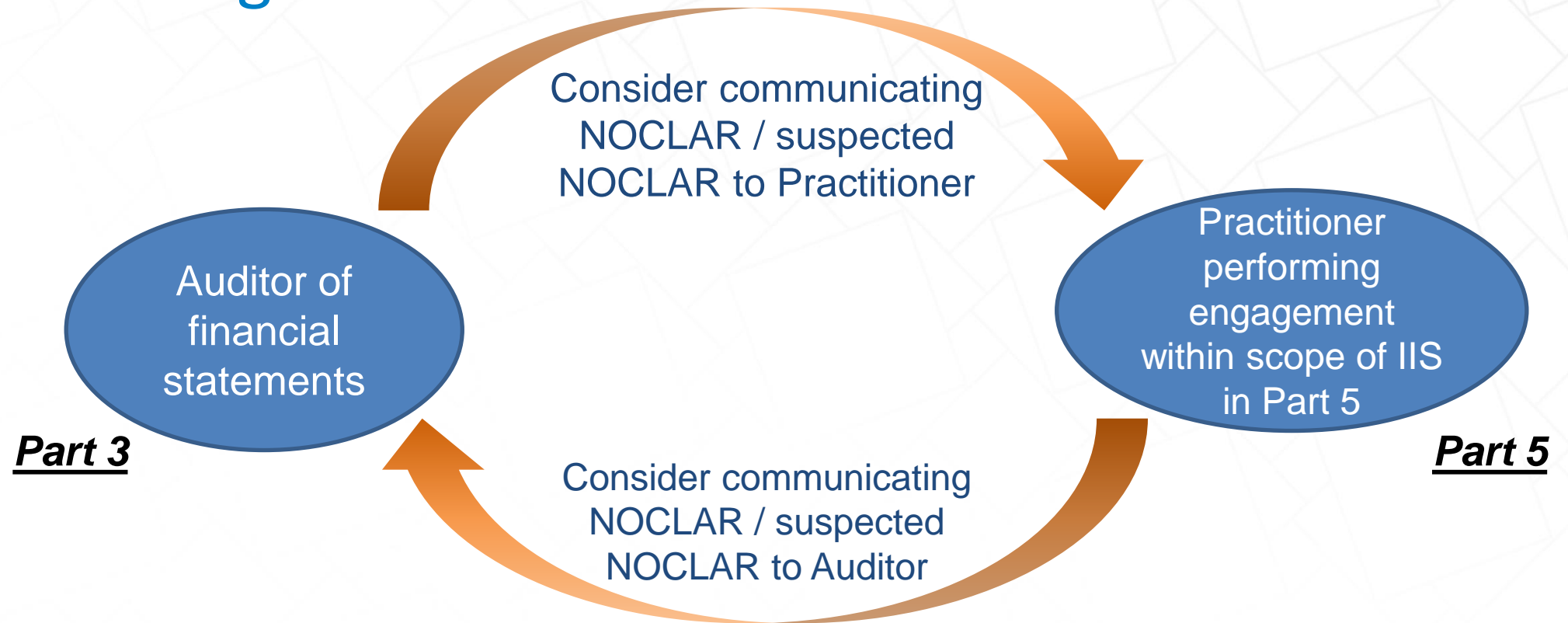
Conflicts of Interest

Fees and Other Types of Remuneration

Inducements, Including Gifts and Hospitality

Responding to Non-Compliance with Laws and Regulations  
(NOCLAR)

# Communicating NOCLAR



## Rationale:

Audit of financial statements

***same public interest***

Sustainability assurance engagement within scope of IIS in Part 5

# International Independence Standards in Part 5



**Channa Wijesinghe**

**APESB CEO &  
IESBA Member**

# Scope of Independence Standards



Part 4B of the extant Code sets out independence standards for other sustainability assurance engagements

- Sustainability assurance engagements with the same level of public interest as audits of financial statements
  - The International Independence Standards (IIS) in Part 5 apply to sustainability assurance engagement where the sustainability information:
    - a. Is reported in accordance with a general purpose framework; and
    - b. Is required to be provided in accordance with law or regulation; or is publicly disclosed to support decision-making by investors or other stakeholders.
- Law or regulation may require the application of the proposed IIS in IESSA to other sustainability assurance engagements

# Independence Provisions

Interests, relationships and circumstances that might create threats to independence in an audit of financial statements might also create threats in a sustainability assurance engagement

**International Independence Standards in Part 5** address specific characteristics of sustainability assurance engagements

Quality Management Systems of Firms

Determination of Public Interest Entities

Independence Considerations for Other Sustainability Assurance Practitioners Involved in Assurance Work

Independence Considerations for Assurance Work Performed at, or with respect to, Value Chain Entities

Specific Sustainability-related Examples

Independence Issues When a Firm Performs both Audit and Sustainability Assurance Engagements



# Quality Management Systems

- Proposed IESSA does not prescribe compliance with a specific quality management (QM) standard
- Sustainability assurance standards are based on an expectation that SAPs have appropriate QM systems in place to effectively comply with the relevant requirements, such as ethical (including independence) requirements
  - For example, proposed ISSA 5000 requires compliance with ISQM 1
- Proposed IESSA does not specify the responsibility of individuals within the firm for compliance with relevant ethical (including independence) requirements

Framework-  
neutral approach



# Determination of Public Interest Entities (PIE)

Revised PIE definition for audit engagements will come into effect in December 2024



- (a) Publicly traded entity;
- (b) Entity with a main function to take deposits from the public;
- (c) Entity with a main function to provide insurance to the public; or
- (d) Entity specified as such by law, regulation or professional standards.

- Same approach for determination of sustainability assurance client as for audit client
  - It also includes certain or all related entities
- Different independence regime in Part 5 for clients that are public interest entities (PIEs)
  - No specific determination of PIEs on the basis of sustainability information
- Provisions for PIEs in Part 5 will be applicable if:
  - The entity is a PIE for purposes of the audit of its financial statements, or
  - The specific jurisdiction determines that the entity is a PIE in the context of the sustainability assurance engagement

# Group Sustainability Assurance Engagements

- Sustainability reporting and assurance will be mandatory mostly for entities that operate as groups
  - Certain frameworks require reporting on a consolidated basis
- Proposed IESSA expressly addresses group sustainability assurance engagements
  - Equivalent to independence provisions for group audit engagements
  - Independence considerations for group firms, component firms and group sustainability assurance team members
- Proposed ISSA 5000 addresses group sustainability assurance engagements only in a general and overarching way
  - Specific questions in ED regarding how practice might evolve and potential issues in the application of the proposed provisions

## Group sustainability information

includes information of more than one entity or business unit

## Group sustainability assurance client

also includes its components at which assurance work is performed

Value chain entities are not components and not part of the group entities

# Using the Work of Another SAP

SAP outside the firm performs assurance work at an entity or component within the client's organisational boundary

Is the other SAP under the firm's direction, supervision and review?



## Standalone SAE

IESSA provisions applicable to a firm and sustainability assurance team members

## Group SAE

Section 5405

(Equivalent to independence for group audits)



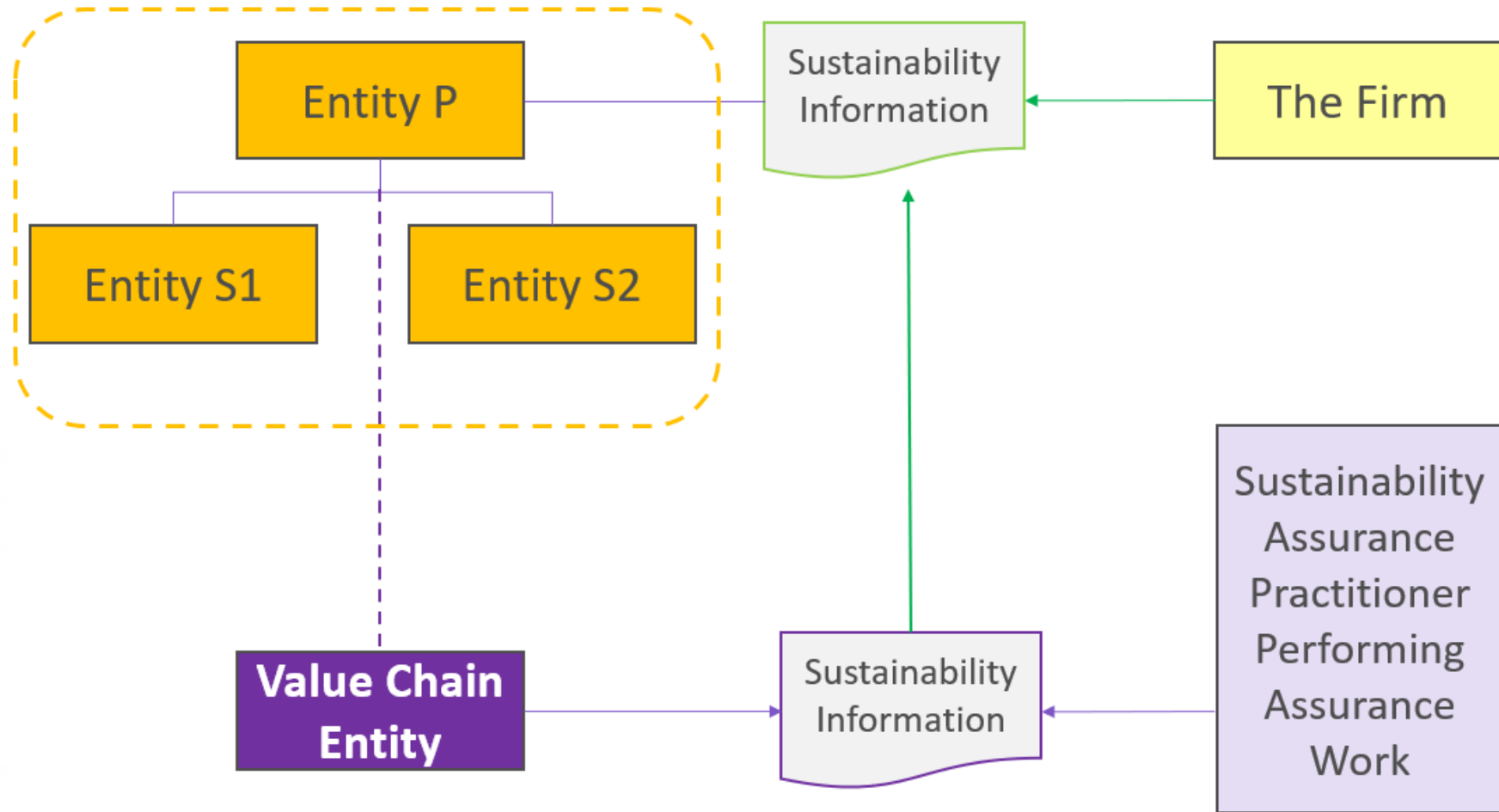
## Standalone and Group SAEs

Section 5406  
(Confirmation of independence)

# Value Chain Entities

Code defines “*value chain entities*” (VCE) in accordance with the applicable reporting framework

VCE are not within the client’s organisational boundary and are not components



# Independence Considerations – Value Chain

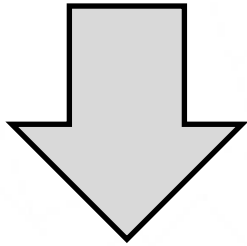
The firm performs assurance work at the value chain entity

Another SAP performs assurance work at the value chain entity

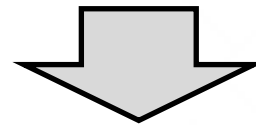
The firm performs assurance work on the value chain entity's information provided by the sustainability assurance client

**All SAPs**

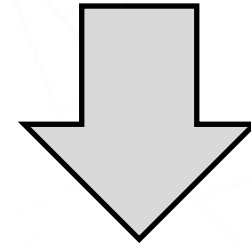
(Irrespective of whether under the firm's direction, supervision and review)



Firm and sustainability assurance team members required to be independent of VCE

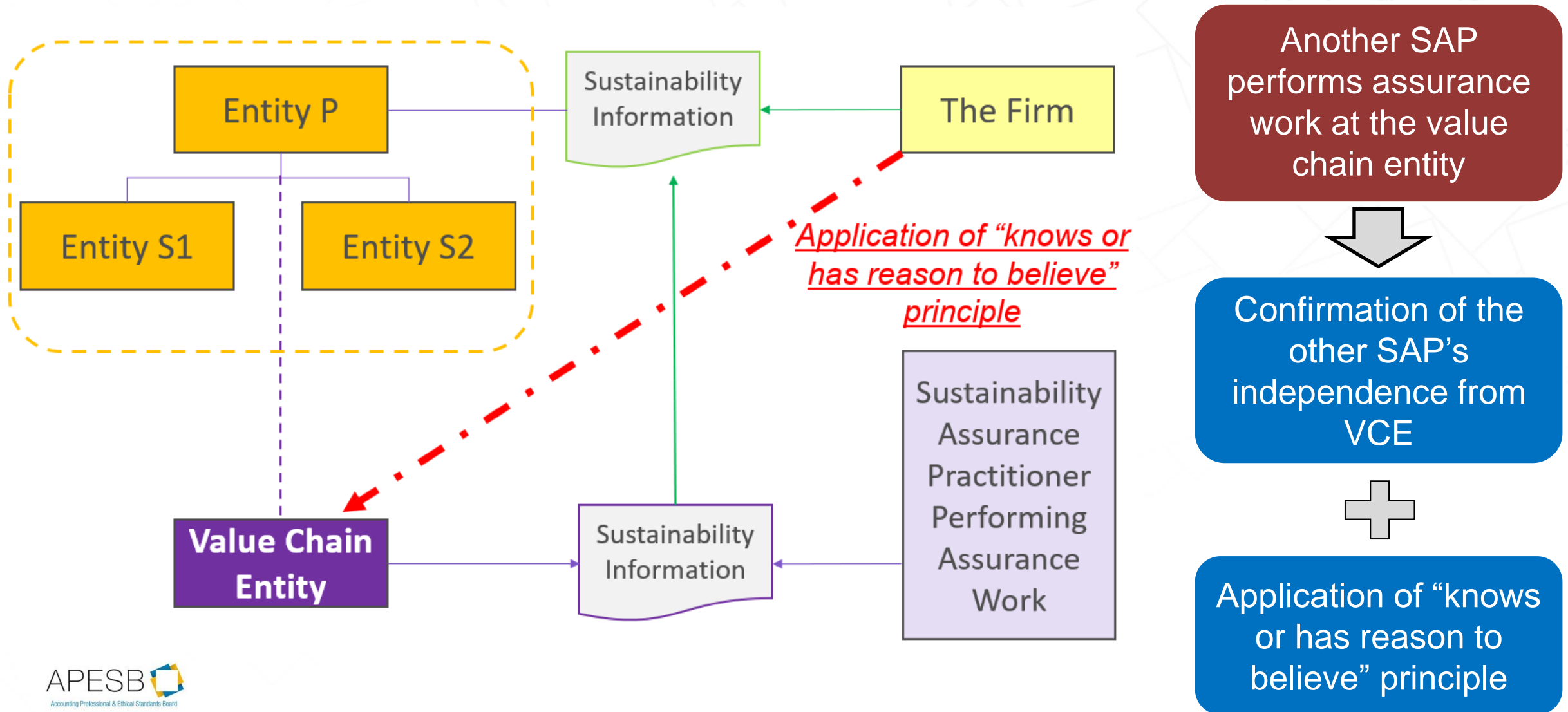


Confirmation of the other SAP's independence from VCE



Firm and sustainability assurance team members required to be independent of sustainability assurance client

# Independence Considerations – Value Chain



# Providing Non-Assurance Services to a Sustainability Assurance Client

- Same threats arising from providing non-assurance services (NAS) to a client in the context of sustainability assurance engagements
  - Same prohibition from assuming management responsibilities and “self-review threat” prohibition
- Similar list of specific NAS → addresses characteristics of sustainability assurance engagements
  - Tailored examples to factors and safeguards
  - Refers to concept of materiality as being addressed in reporting and assurance frameworks
  - Focusing more broadly on sustainability data and information services instead of accounting and bookkeeping services
  - Include “future-looking” services

**Sustainability Data  
and Information  
Services**

**Valuation and Other  
Forecasting Services**

**Internal Audit  
Services**

**Litigation Support  
Services**

**Recruiting Services  
Corporate**

**Administrative  
Services**

**Tax Services**

**Information  
Technology Systems  
Services**

**Legal Services**

**Finance Services**



# Independence Considerations Applicable When a Firm Performs Both Audit and Sustainability Assurance Engagements

## Fees

- Consideration of threats to independence related to proportion of fees from both engagements
  - Where SAE is a separate engagement from audit
  - Disclosure as non-audit fee
- No proposed prohibition or threshold

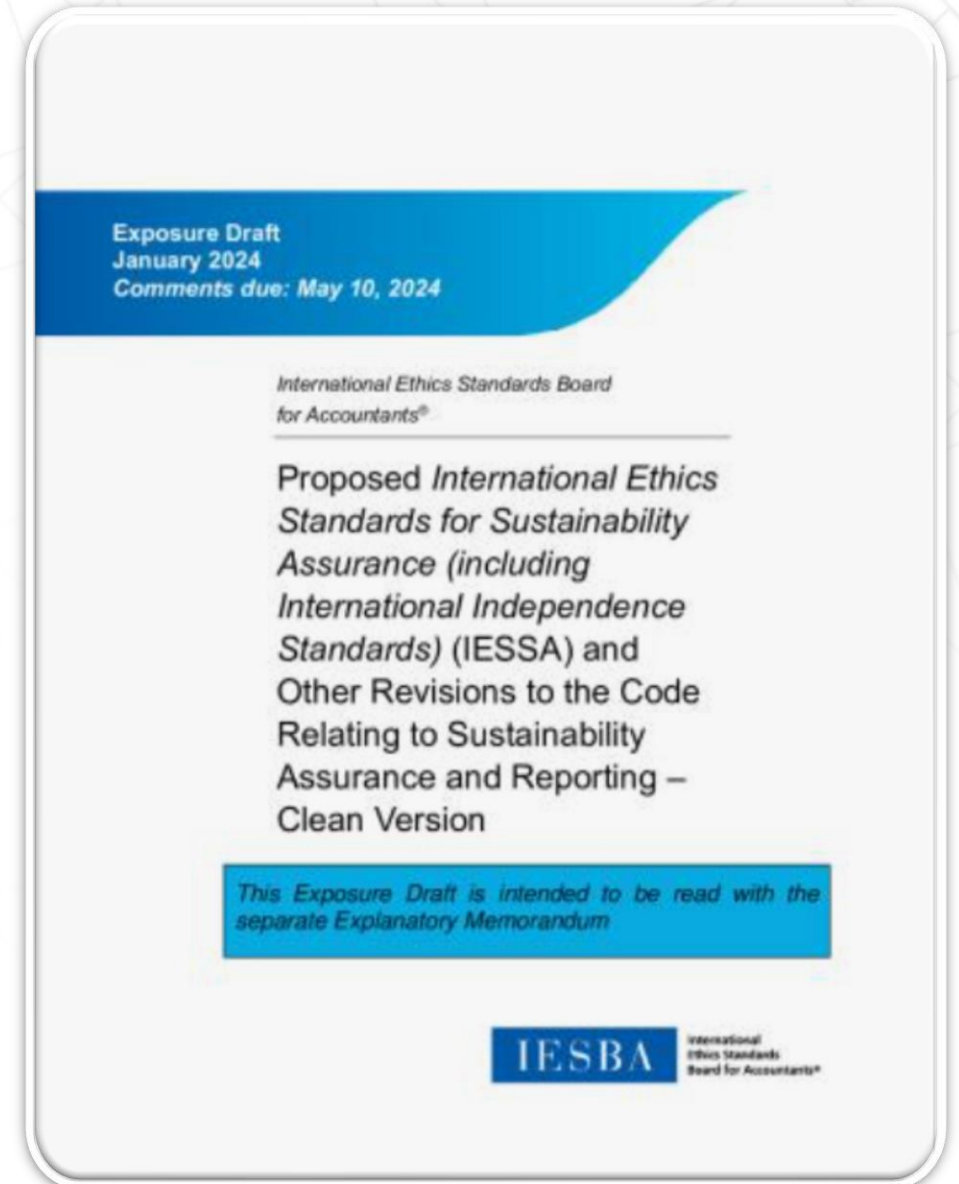
## Long Association

- Service as key audit partner and key sustainability assurance leader treated as equivalent
  - Prior service in any of these roles might create threats to independence
- Factored in when determining cooling-off periods



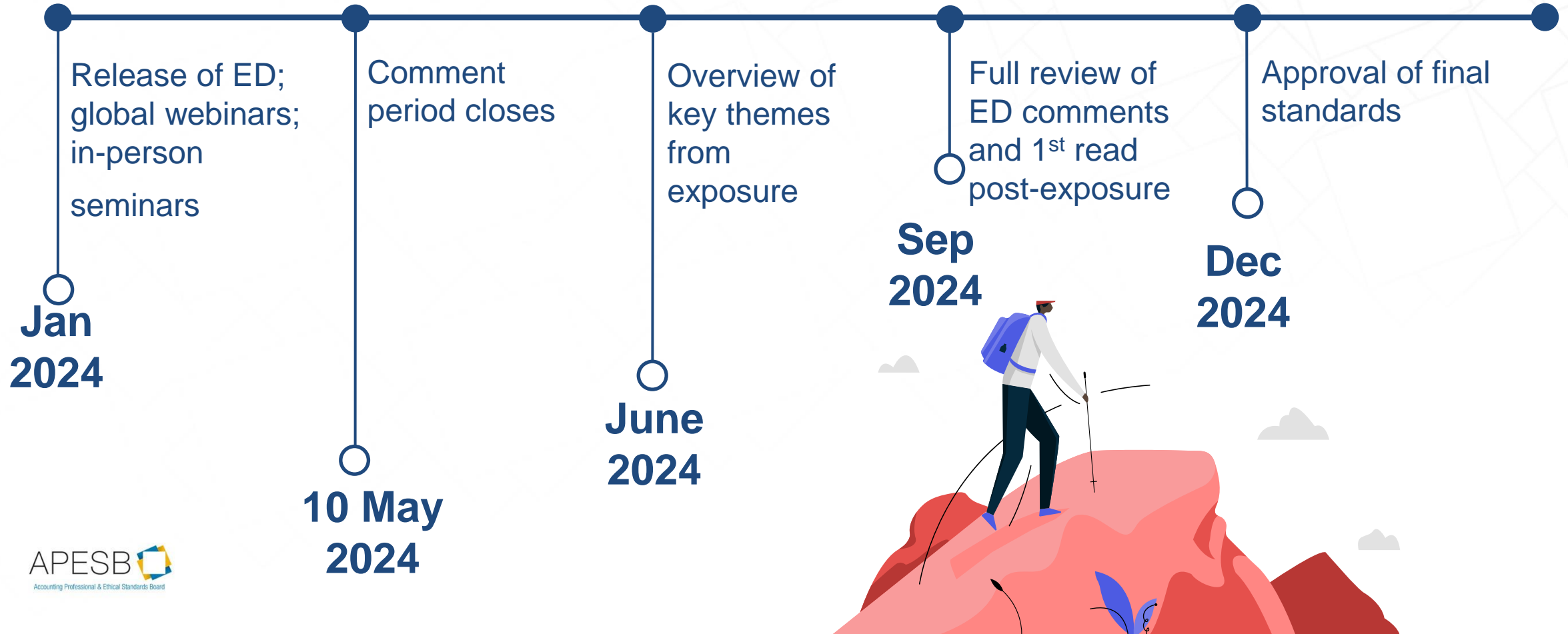
# Supporting Material

- Global webinars and other local / regional webcasts
  - Recording of global webinars will be available on IESBA's website
- Q&A publication
  - With practical examples and further explanation of proposals in Sustainability ED
- In-person Seminars



# Timeline

## Stakeholder Engagement and Outreach



# Break

# Discussion in Groups

# Matters for discussion – Group 1

## ***Main Objectives of the IESSA***

1. Do you agree that the proposals in Chapter 1 of the ED are:
  - (a) Equivalent to the ethics and independence standards for audit engagements in the extant Code? *[See paragraphs 19 and 20 of the Explanatory Memorandum]*
  - (b) Profession-agnostic and framework-neutral? *[See paragraphs 21 and 22 of the Explanatory Memorandum]*

## ***Definition of Sustainability Information***

3. Do you support the definition of “sustainability information” in Chapter 2 of the ED? *[See paragraphs 24 to 26 of the Explanatory Memorandum]*

# Matters for discussion – Group 1

## ***Scope of Proposed IESSA in Part 5***

4. The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5? *[See paragraphs 30 to 36 of the Explanatory Memorandum]*
5. The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a? *[See paragraphs 38 to 43 of the Explanatory Memorandum]*

## ***Structure of Part 5***

6. Do you support including Section 5270 in Chapter 1 of the ED? *[See paragraphs 46 to 48 of the Explanatory Memorandum]*

# Matters for discussion – Group 1

## **NOCLAR**

7. Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other? *[See paragraphs 56 to 67 of the Explanatory Memorandum]*
8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED) *[See paragraph 68 of the Explanatory Memorandum]*

## ***Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest***

20. Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information? *[See paragraphs 133 to 135 of the Explanatory Memorandum]*



# Matters for discussion – Group 2

## ***Determination of PIEs***

9. For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements? *[See paragraphs 80 to 85 of the Explanatory Memorandum]*

## ***Group Sustainability Assurance Engagements***

10. The IESBA is proposing that the *International Independence Standards* in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements. *[See paragraphs 86 to 92 of the Explanatory Memorandum]*
  - a) Do you support the IIS in Part 5 specifically addressing group sustainability assurance engagements? Considering how practice might develop with respect to group sustainability assurance engagements, what practical issues or challenges do you anticipate regarding the application of proposed Section 5405?



# Matters for discussion – Group 2

## ***Group Sustainability Assurance Engagements***

- b) If you support addressing group sustainability assurance engagements in the IIS in Part 5:
  - i. Do you support that the independence provisions applicable to group sustainability assurance engagements be at the same level, and achieve the same objectives, as those applicable to a group audit engagement (see Section 5405)?
  - ii. Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement? *[See paragraph 88 of the Explanatory Memorandum]*
  - iii. Do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?

# Matters for discussion – Group 2

## ***Using the Work of Another Practitioner***

11. Section 5406 addresses the independence considerations applicable when the sustainability assurance practitioner plans to use the work of another practitioner who is not under the former's direction, supervision and review but who carries out assurance work at a sustainability assurance client. Do you agree with the proposed independence provisions set out in Section 5406? *[See paragraphs 93 to 101 of the Explanatory Memorandum]*

## ***Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client***

17. Do you agree with, or have other views regarding, the proposed approach in Part 5 to address the independence issues that could arise when the sustainability assurance practitioner also audits the client's financial statements (with special regard to the proportion of fees for the audit and sustainability assurance engagements, and long association with the client)? *[See paragraphs 123 to 131 of the Explanatory Memorandum]*

# Matters for discussion – Group 3

## ***Assurance at, or With Respect to, a Value Chain Entity***

12. Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements? *[See paragraphs 102 and 103 of the Explanatory Memorandum]*
13. Do you support the provisions in Section 5407 addressing the independence considerations when assurance work is performed at, or with respect to, a value chain entity? *[See paragraphs 104 to 110 of the Explanatory Memorandum]*
14. Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:
  - a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm’s independence?
  - b) If yes, do you support the approach and guidance proposed for identifying, evaluating, and addressing the threats that might be created by interests, relationships or circumstances with a value chain entity in Section 5700? What other guidance, if any, might Part 5 provide? *[See paragraphs 111 to 114 of Explanatory Memorandum]*

# Matters for discussion – Group 3

## ***Providing NAS to Sustainability Assurance Clients***

15. The *International Independence Standards* in Part 5 set out requirements and application material addressing the provision of NAS by a sustainability assurance practitioner to a sustainability assurance client. Do you agree with the provisions in Section 5600 (for example, the “self-review threat prohibition,” determination of materiality as a factor, and communication with TCWG)? *[See paragraphs 115 and 116 of the Explanatory Memorandum]*
16. Subsections 5601 to 5610 address specific types of NAS. *[See paragraphs 118 to 120 of the Explanatory Memorandum]*
  - a) Do you agree with the coverage of such services and the provisions in the Subsections?
  - b) Are there any other NAS that Part 5 should specifically address in the context of sustainability assurance engagements?

# Group Feedback



# Lunch



# Overview of Using the Work of an External Expert ED



**Channa Wijesinghe**

APESB CEO &  
IESBA Member



# 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

# IAASB Coordination



- 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
- Finalisation 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

# Proposed Ethical Framework and Approach

## Definitions Introduced for “Expert” and “Expertise”

- Distinguish the work of experts from the work of other individuals or organisations 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 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 organisation.”

# 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





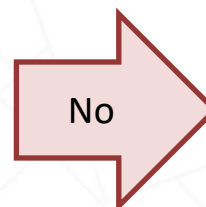
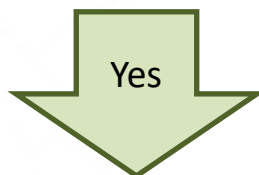
What questions might a PA ask to identify whether an expert is an:

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



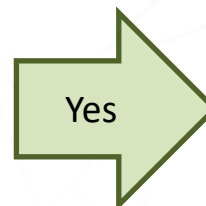
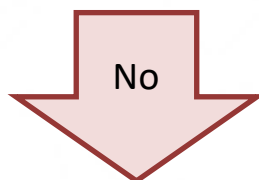
# Flowchart – Determining Expert’s Independence requirements

1. Is the expert engaged by the firm?



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

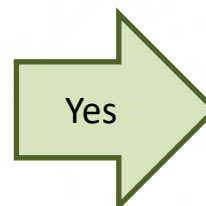
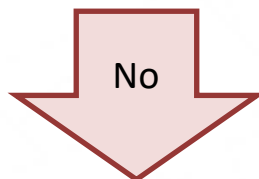
2. Is the expert performing audit procedures?



**ENGAGEMENT TEAM MEMBER**

Independence Required (Part 4A of Code)

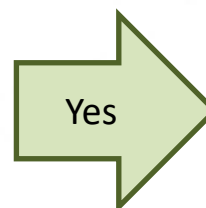
3. Is the expert providing consultation such as in accordance with ISA 220 (Revised)?



**AUDIT TEAM MEMBER**

Independence Required (Part 4A of Code)

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



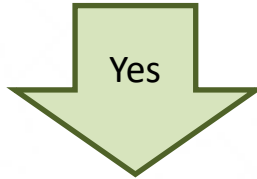
**EXTERNAL EXPERT**

Independence through lens of Objectivity  
(Proposed S390)

# Flowchart continued

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

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

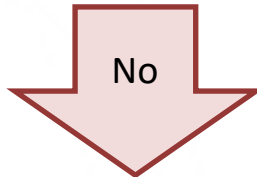


2. Is the expert performing audit procedures?

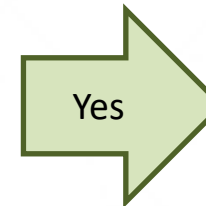


### ENGAGEMENT TEAM MEMBER

Independence Required (Part 4A of Code)

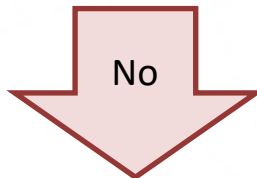


3. Is the expert providing consultation such as in accordance with ISA 220 (Revised)?



### 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

# Detailed Provisions of External Expert ED



**Geoff Kwan**  
IESBA Director

## Basic Premise

# Whether to Use the Work of an External Expert

- (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 Organisation

Team (p R390.9)

Organisation 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
    - Recognises 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 recognises that certain interests, relationships or circumstances held by the external expert's
    - Team
    - Organisation
    - 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)

- Any direct financial interest or material indirect financial interest held.
- Any material loan, or guarantee of a loan, made to the entity.
- Loans or guarantee of a loan accepted other than normal lending procedures, terms and conditions.
- Any close business relationships.
- Current or previous engagements with the entity.
- Any position as a director or officer of the entity.
- Any previous public statements by the external expert or their employing organisation of the entity.
- Any fee or contingent fee or dependency on fees or other types of remuneration due to or received.
- Any benefits received.
- Any conflict of interest.
- The nature and extent of any interests and relationships between the controlling owners and the expert.

# 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 Fundamental Principles

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

# Discussion in Groups

# Matters for discussion – Group 1

## ***Evaluation of Competence, Capabilities 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 PAIBs, PAPPs and SAPs? See Section V of the Explanatory Memorandum.
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 of the Explanatory Memorandum.

# Matters for discussion – Group 2

## ***Glossary***

1. Do respondents support the proposals set out in the glossary concerning the proposed new and revised definitions of “Expert, Expertise, and External Expert”? See Section III of the Explanatory Memorandum.

## ***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) of the Explanatory Memorandum.



# Matters for discussion – Group 3

## ***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) of the Explanatory Memorandum.

## ***Impact on Small and Medium Practices (SMPs)***

Do respondents have any comments regarding any aspect of the proposals and impacts on SMPs (in particular the independence attributes in the context of audit engagement)?

# Break

# Group Discussions



# Group Feedback



# Closing comments



**Nancy Milne OAM**  
Chairman

## Important dates

| Consultation process                                    | Date          |
|---|---------------|
| Online roundtable                                       | 26 March 2024 |
| Local stakeholders' submissions to APESB                | 19 April 2024 |
| Submissions due to the IESBA on the External Experts ED | 30 April 2024 |
| Submissions due to the IESBA on the Sustainability ED   | 10 May 2024   |

# Further Information

For more information:

[www.apesb.org.au](http://www.apesb.org.au)

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# Purpose & Disclaimers

This set of PowerPoint slides has been developed by APESB Technical Staff and the IESBA Technical Staff on the exposure drafts relating to the proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA)* and *Using the Work of an External Expert of the International Code of Ethics for Professional Accountants (including International Independence Standards)*

These slides provide only an *overview* of the proposals in the exposure draft and consultation paper and do not purport to present all the detailed changes. The slides should be read in conjunction with the exposure drafts and the explanatory memorandums. These slides do not form part of the Exposure Drafts.

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