

29 April 2024

Gabriela Figueiredo Dias  
Chair  
International Ethics Standards Board for Accountants

Dear Gabriela,

***Exposure Draft: Using the Work of an External Expert***

Thank you for the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Using the Work of an External Expert Exposure Draft (the Exposure Draft). We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the Exposure Draft, that are within our mandate.

The NZAuASB agrees that it is important to address the use of experts, especially in the context of sustainability given the range of expertise that may be required. The overall objective of the proposals had a focus on exploring the independence or objectivity of the external expert. We agree that the approach followed by the IESBA in developing the objectivity considerations is broadly appropriate. We consider the revised definitions are reasonable, and generally are responsive to the public interest expectations around using experts.

***Competence***

The NZAuASB considers that competence and objectivity are of equal importance, particularly for sustainability experts, where the breadth of competence needed may be extensive.

We recommend that the IESBA ensure that there is sufficient material to assist an assurance practitioner determine what competencies are required when using an expert, and how to find an appropriate expert.

***Interaction with performance-based assurance standards***

The NZAuASB requests further clarity as to how these IESBA proposals will work with the requirements for using the work of external experts contained within performance-based assurance standards.

We recommend that the IESBA, the IAASB and other standard setters, for example the International Organisation for Standardization (ISO), continue to work together to ensure the ethical and the performance-based requirements work in conjunction, to ensure the requirements do not cause confusion, or complacency, for assurance practitioners across all types of assurance services.

We also encourage the IESBA to continue to connect with other industries, and work with the International Accreditation Forum (IAF) to determine how the requirements can support build the market capacity of external experts who can be utilised across a range of assurance services.

***Implementability***

We question whether the requirement to evaluate the objectivity of all members within an expert's team provides the appropriate balance. We are concerned that the expected costs of compliance may incentivise assurance practitioners to not engage external experts, which could lead to assurance services being performed without appropriate external experts.

We recommend that the IESBA limit the objectivity requirements to individuals who have responsibility and accountability within the external expert's team for the provision of expert services, and the ability to significantly influence the external expert's conclusions, rather than all individuals within the external expert's team.

Our responses to specific questions in the Exposure Draft are set out in Appendix A. Should you have any queries concerning our submission please contact either myself at the address details provided below or Nimash Bhikha ([nimash.bhikha@xrb.govt.nz](mailto:nimash.bhikha@xrb.govt.nz)).

Yours sincerely,

A handwritten signature in black ink that reads "MJ Russ". The letters are cursive and slightly slanted.

**Marje Russ**  
**Chair – NZAuASB**  
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## Submission of the New Zealand Auditing and Assurance Standards Board

### Appendix A: Responses to Using the Work of an External Expert Exposure Draft Questions

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

**Response:**

Yes. We support the proposals set out in the glossary for the proposed new definitions of 'experts' and 'expertise' and the revised definition of 'external expert'. We note that 'experience' has been removed from the definition of 'expert' and accept the IESBA's rationale for the deletion. However, given the importance of having the necessary experience, we recommend that considering the experience of an external expert should be part of evaluating the capabilities of the external expert, as noted in our response to question 2 below.

- 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 competence, capabilities and objectivity (CCO) specific to PAIBs, PAPPs and SAPs? See Section V.**

**Response:**

Yes. Overall, we support the approach within the Exposure Draft to evaluating an external expert's objectivity. However, we highlight the following considerations which we believe are important to ensure appropriate considerations are made by Professional Accountants/Sustainability Assurance Practitioners (PAs/SAPs) when evaluating external experts, particularly in relation to competence:

*Evaluating an external expert's competence*

Sections R390.6 and R5390.6 requires the PA/SAP to evaluate whether the external expert has the necessary competence, capabilities and objectivity for the PA/SAP's purpose.

We consider that competence and objectivity are of equal importance, particularly for sustainability assurance engagements, where the breadth of competence is wide, and assurance practitioners may be less familiar with the specific competences needed by external experts.

We recommend that the focus on competence considerations could be strengthened in section 5390.6 A2. It is not explicit that a PA/SAP should consider the specific context in which an external expert's competence and capabilities are to be applied, and consideration of the location(s) and the environmental, economic, social and cultural conditions that are relevant to the engagement.

We recommend that the IESBA amend section 5390.6 A2 to explicitly reference contextual and local considerations as follows– "Whether the external expert's credentials, education, training, experience and reputation, after consideration of location-specific environmental, economic, social or cultural factors, are relevant to or consistent with, the nature of the work to be performed."

*Evaluating an external expert's capability*

Sections 390.6 A3 and 5390.6 A3 outline factors that are relevant in evaluating the capabilities of the external expert and refers to factors including the resources available to the external expert, and whether the external expert has sufficient time to perform the work.

We recommend that the IESBA should include additional examples of 'capability' within the Code to help PAs/SAPs distinguish between capability and competence-related matters. We recommend adding other aspects of capabilities beyond resourcing and capacity matters, such as considerations around the experience the external expert has in applying their skills and knowledge to the specific service provided.

### Evaluating an external expert's objectivity

Sections R390.8 and R5390.8 requires that the PA/SAP shall request the external expert to provide information around their objectivity in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period.

We support the IESBA's proposal that if an external expert is not objective, the work of such expert cannot be used in any professional service or activity. We do note that many external experts work in well-established industries and are subject to professional and ethical processes in their own fields, which require them to consider conflicts of interest and implement safeguards to maintain their own objectivity.

We recommend that the IESBA should require a PA/SAP to request further information from external experts about any safeguards or mitigations that the external expert may have put in place to address potential objectivity threats. This will allow for PA/SAPs to perform a more informed assessment of objectivity, recognising that experts may have, and be applying, their own professional and ethical obligations.

### **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.**

#### **Response:**

Yes. We agree with the proposal in sections R390.12 and R5390.12 that if an external expert is not competent, capable or objective, then their work cannot be used by the PA/SAP.

### Inherent limitations in evaluating an external expert's competence, capabilities or objectivity

The application material within Sections 390.19 A1 and 5390.19 A1 states that when using the work of an external expert, communication around inherent limitations might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

We recommend that the IESBA clarify the purpose of this application material. If there is a lack of information to evaluate the external expert's CCO, it is unclear how communication responsibilities for the assurance practitioner might be especially relevant.

### **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).**

#### **Response:**

Yes. Overall, we agree that the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigour to address the heightened public interest expectations concerning external experts in the use of financial audit and sustainability assurance engagements, subject to our comments on specific provisions are set out below.

### Evaluating all individuals within an external expert's team

Sections R390.9 and R5390.9 require that where the external expert uses a team to carry out the work, the PA/SAP shall request all members of the external expert's team to provide the information set out in sections R390.8 and R5390.8 respectively.

While we support the IESBA's intent and responsiveness to heightened expectations regarding the use of external experts teams, there may be several practical issues with these proposals, including:

- Whether an external expert's team extends to sub-contractors, quality reviewers or peer reviewers which may be used by an external expert, or consultations which are performed by the external expert with other external experts;
- If team members within an external expert's team change during the external expert's engagement, whether the intention is for an assurance practitioner to assess the objectivity of work performed by the external expert who has left the external expert's organisation; and
- Whether the assurance practitioner would need to agree the external expert's team members through the engagement letter, to ensure completeness of who has been involved in performing the external expert's work.

We heard concerns around requiring the PA/SAP to evaluate the objectivity of *all* individuals within an external expert's team, compared to assessing the objectivity of the individuals who have the responsibility and accountability within the expert's team for the provision of expert services. Given the increasingly complex nature of some matters, the external experts' team may be large, and in some instances may be bigger than the assurance team itself. This may result in disproportionate costs compared to the resulting benefits and may be impractical for smaller assurance practitioners.

The IESBA should reflect on the costs and benefits created through requiring the PA/SAP to assess the objectivity of *all* members within an expert's team. We recommend the objectivity requirements be limited to individuals who have responsibility and accountability within the expert's team for the provision of expert services, and the ability to significantly influence the expert's conclusions, rather than all individuals within the expert's team.

#### Broader matters which may be relevant to an external expert's objectivity for sustainability assurance services

Section R5390.8 requires that the SAP request the external expert to provide information around their objectivity in relation to the entity at which the external expert is performing the work. These requirements focus on financial interests, and any conflicts of interest an external expert may have (R5390.8(l)). The requirements should outline additional non-financial factors, drawing specifically from sustainability related matters, which may threaten the objectivity of the external expert, to help ensure appropriate and consistent application of 'any conflicts of interest'.

Depending on the scope of the work to be performed, the external expert's objectivity may be negatively impacted by aspects of activities, products or services by entities (for example: community disruption caused by an entity where the expert resides) or positively impacted (for example: the expert may be a member of a community receiving some sponsorship from the entity).

We recommend that the IESBA expand section R5390.8, to explicitly include information on broader conflicts which may be relevant to an external expert's objectivity, drawing specifically from the wider range of sustainability related matters, and scenarios, which may impact their objectivity. Requiring the SAP to request a wider breath of information about objectivity conflicts, will allow the SAP to perform a more effective evaluation of the external expert's objectivity.

#### Evaluating threats based on if it were to be performed by two or more parties

Sections 390.15 A1 and 5390.15 A1 note factors that are relevant in evaluating the level of threats to an external expert's CCO, and includes whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.

It would be difficult in practice for a PA/SAP to be able to consider whether the external expert's work, if it were to be performed by two or more parties, would not likely be materially different. In some situations, particularly for sustainability assurance engagements, this may require the PA/SAP to engage another external expert,

which may be difficult where expertise is limited. The proposed requirements appear unintentionally encourage speculation by the PA/SAP around the conclusions another external expert would arrive at.

We recommend that the IESBA provide clarity around how a PA/SAP may be able to assess whether the external expert's work, if it were to be performed by two or more parties, would not be likely to be materially different. The IESBA should also reinforce that this should not lead to or rely upon the PA's/SAP's uninformed speculation and does not necessarily require engaging another 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).**

**Response:**

Yes. We support the provisions included in the Exposure Draft that guide the PA/SAP in applying the conceptual framework when using the work of an external expert, subject to the comments made in other sections of this comment letter around specific provisions.

- 6) **Other Matters**

**Response:**

*Self-review threats within general requirements*

Sections 390.6 A1 and 5390.6 A1 notes that a self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a PA/SAP uses an external expert who does not have the CCO to deliver the work needed for the professional service.

It is unclear how a PA/SAP, who may utilise an expert who does not have the appropriate CCO, could result in a self-review threat. The nature of potential self-review threats is made more unclear by sections 390.14 A1 and 5390.14 A1 which do not note any examples around self-review threats when considering the use of experts, but only includes self-interest threats, advocacy threats, familiarity threats and intimidation threats.

We recommend that the IESBA add an example of self-review threats created from the use of an external expert, to avoid confusion around the intention of this category of threats.

*Interaction with performance-based assurance standards*

The NZAuASB request further clarity as to how these IESBA proposals will work with the requirements for using the work of external experts contained within performance-based assurance standards.

We recommend that the IESBA, the IAASB and other standard setters, including the International Organisation for Standardization (ISO), continue to work together to ensure the ethical requirements and the performance standards work in conjunction when using the work of experts to ensure requirements are inter-operable and do not contradict or cause complacency around an assurance practitioner's considerations when using external expert.

***In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:***

- **Sustainability Assurance Practitioners Other than Professional Accountants – The IESBA invites comments on the clarity, understandability and usability of the proposals from SAPs outside of the accountancy profession who perform sustainability assurance engagements addressed in the proposed Part 5 of the Code.**

**Response:**

Examples relevant to sustainability assurance services

The proposed requirements within Part 5 of the Code, which are proposed to impact SAPs other than professional accountants could be better tailored to reflect the breadth of considerations which may be required when considering sustainability related matters. This would help SAPs other than professional accountants to understand and use the proposals in the context of their sustainability assurance services.

For example – Section 5390.4 A3 outlines examples of work which may be performed by an external expert to support a professional service provided by a sustainability assurance practitioner. Further examples to this list, specific for sustainability related professional services, could include:

- Assessment of biodiversity offsets/credits;
- Considerations of the range of accounting tools used in ecolabels covering supply chains;
- Measurement of pollutants emitted to air, water or soil; and
- Assessment and/or measurement of impacts of activities, product or services on the environment, economy and social or cultural conditions.

Educational resources and implementation support

The evaluation of an external expert's competence, capabilities and objectivity in the context of a sustainability assurance engagement could cover a wide range of different subject matters and technical competencies and may be difficult for assurance practitioners to perform an appropriate evaluation. The IESBA should consider the level of educational resources, and awareness building, which will be released alongside these requirements, to assist assurance practitioners to understand the requirements and to be able to implement this in an appropriate manner.