



The Chairman

International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017

29 April 2024

Comments on IESBA Exposure Draft “Using the Work of an External Expert”

Dear Sirs:

Assirevi is the association of the Italian audit firms. Its member firms represent the vast majority of the audit firms licensed to audit companies listed on the Italian stock exchange and other public interest entities in Italy, under the supervision of CONSOB (the Italian Commission for listed companies and the stock exchange).

Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for the benefit of its members. It collaborates with CONSOB, the Italian accounting profession and other bodies in developing auditing and accounting standards.

Therefore, the issues covered in the Exposure Draft “*Using the Work of an External Expert*” issued by IESBA in January 2024 are relevant to the Association, that is consequently pleased to submit its comments on the consultation.

Should you have any queries, please do not hesitate to contact us.

Yours faithfully,


Gianmario Crescentino
Chairman

(Enclosure)

COMMENTS ON THE IESBA EXPOSURE DRAFT

Using the Work of an External Expert

(January 2024)

Assirevi fully agrees on the introduction of new sections to the IESBA Code addressing the use of the work of an external expert both in relation to audit engagements and sustainability assurance engagements and, in particular, the process of assessing his relevant competency, capability and objectivity (so called “CCO” evaluation).

Nonetheless, we wish to bring IESBA’s attention on certain issues arising from the Exposure Draft (“ED”) addressing some general comments, in addition to the answers to the specific questions below.

Assirevi appreciates the choice made by the IESBA to place the new sections in Part 3 of the Code relating to ethics requirements and not in Part 4A relating to independence requirements. This means that the CCO’s evaluation is made from an ethics perspective and not from an independence point of view. The choice helps also to clarify that if an external expert turns out not to be objective this will not impair the independence of the professional accountant (“PA”)/sustainability professional accountant (“SAP”).

Furthermore, as highlighted in answer to question nr. 1, Assirevi ascertains that the IESBA clarified that an “*external expert*” is not a member of the engagement team, audit team, review team. Nevertheless, some provisions in the Exposure Draft seems to be inconsistent with this clarification. Indeed, the assessment of the competence, capabilities, and objectivity of an external expert as provided in the Exposure Draft includes some requirements that in the IESBA Code are specific to audit team members. In effect, when assessing the CCO for audit or other assurance engagements, according to paragraph R390.8 (paragraph R5390.8) the professional accountant (or the sustainability assurance practitioner) shall request the external expert to provide a list of additional information that usually relates to the independence of audit/assurance team members (e.g. any direct financial interest or material indirect financial interest, any loan, or guarantee of a loan, any close business relationship, etc.). Moreover, such an assessment concerns not only the external expert but also his immediate family member, his organization and his engagement team.

Assirevi believes the IESBA’s approach to evaluate the objectivity of the external expert involved in audit or other assurance engagements is too broad and therefore suggests re-evaluating it as described in the answers to questions below.

Finally, the Exposure Draft states that if an external expert is not competent, capable or objective, the Code should prohibit the PA or SAP from using his work. As mentioned in answer to question nr. 3, Assirevi believes that the evaluation of the audit evidence on the CCO assessment should be addressed by the specific auditing and assurance standard and that the IESBA should refrain from setting auditing and assurance standards.

In light of the above, please find below some comments relating to questions contained within the explanatory memorandum to the Exposure Draft.

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

Assirevi outlines that the proposed definition of “*expertise*” (“*Knowledge and skills in a particular field*”) is only partially aligned with the definition provided in ISA 620, which includes, as well as the terms “*knowledge*” and “*skills*”, also the term “*experience*”.

Reasonably, this misalignment is likely to be overcome. Indeed, as highlighted in the “*Explanatory Memorandum*” (see page 9), the development of the Exposure Draft was closely coordinated with the IAASB. In addition, the IAASB has included in its Strategy and Work Plan for 2024-2027, a project to consider possible narrow scope amendments to IAASB standards as a result of the finalization of the IESBA project at issue.

Furthermore, Assirevi agrees with the definition of “*expert*” introduced by the IESBA which is broad and anchored relative to the professional accountant’s or sustainability professional accountant’s competence (“*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*”).

In addition, Assirevi recognizes that the proposed amendment of the “*external expert*” definition is suitable for the use of such expert both in relation to audit engagements and assurance engagements (including sustainability assurance engagements).

With regard to that definition, Assirevi ascertains the clarification provided by the Exposure Draft that external experts (“*EE*”) are only those who are engaged (i.e., hired) by an employing organization, firm or sustainability professional accountant and that, accordingly, external experts “*are not members of the engagement team, audit team, review team, assurance team, or sustainability assurance team*”. In this way, it is clearer that “*external experts*” are different from: (i) individuals who perform audit procedures (who generally will have audit expertise) who are part of the engagement team and are subject to independence and (ii) individuals with expertise in accounting or other technical or industry-specific matters who provide consultations. Those last categories are part of the audit team and are subject to independence requirements.

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.

While we support the proposed approach to be applied to PAPPs and SAPs when performing audit and assurance activities, respectively, we disagree with extending the same approach to professional accountants in public practice (“PAPPs”) when providing NAS to non-audit clients.

As far as the PAPPs and SAPs when performing audit and assurance activities are concerned, we believe that the approach is conceptually aligned with the existing provisions in ISA 620 and ISAE 3000 (Revised). In particular, we agree with the requirement that the PA shall have an inquiring mind, exercise professional judgment and use the reasonable and informed third party test. The proposed approach represents a more detailed and granular way for the assessment to be conducted and documented.

The evaluation process is to be conducted through the lens of objectivity as stated in the proposed paragraphs 390.6 A4 and A6. We believe, also, that the proposed paragraph 390.6 A6 contains sufficient application material to guide the PA or SAP to obtain information to evaluate the external expert’s objectivity.

With respect to the additional requirements and application material in proposed paragraphs R390.8 to R390.11 for audit or other assurance engagements, we partially agree. In fact, while we agree with the evaluation of CCO from an ethics perspective, we have some concerns about the greater rigor to evaluate objectivity against independence attributes for external experts in an audit and other assurance context. We understand that the proposed independence requirements for external experts whose work contributes to the audit/assurance opinion address the public interest expectations, but we also believe that the proposed paragraphs R390.8 to R390.11 need to be revised. In particular, we have concerns about the external expert’s CCO evaluation with regard to the expert’s immediate family member (“IFM”) and at the organizational level and about the time period for which the external expert provides the information for the evaluation of its objectivity. The above factors, thus formulated, are, in our view, too broad.

As far as the time is concerned, Assirevi believes considerations should be given to the period in which the risk of having a non-objective external expert is most relevant. According to Assirevi, the risk exists when the expert is performing his activities and can therefore affect the work of the auditor. In light of the above, the time period for which the external expert provides the information for the evaluation of his objectivity should be limited to the external expert engagement period.

With reference to the organizations, it should be made clear that this term only refers to the employer entity, without any extension to the related group or network, if any.

Lastly, we think it is excessive the extension of the requirements to the IFM. Such extension should be limited to specific circumstances and not extended to all cases listed in the specified paragraph.

With specific regard to the evaluation of external expert's objectivity when the PAPPs are involved in NAS for non-audit clients, we do not support the need for a similar assessment as there is no such needs. When providing NAS to non-audit clients, the PAPP must in any case comply with fundamental principles and therefore there is no need to assess the objectivity of their external experts.

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.

We disagree.

Assirevi believes that if the external expert is not competent, capable or objective, this may inevitably affect the PA or SAP's decision to use his work. Nonetheless, the evaluation of the audit evidence about the CCO assessment should be addressed by the specific auditing and assurance standard and the IESBA should refrain from setting auditing and assurance standards.

Therefore, we disagree that the IESBA requires PA or SAP not to use the work of external expert if the PA or SAP determines that the external expert is not objective. This is a matter of professional judgement, considering the applicable performance standard.

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).

The evaluation of the objectivity of the external expert required for all types of professional services is aimed at verifying the existence of competence, capabilities and objectivity requirements. The IESBA proposal in paragraph R390.8 introduces, with specific reference to audit and assurance engagements, additional elements for the evaluation that relates to independence requirements.

Assirevi recognizes that it is important in the context of audit and assurance engagements to assess the objectivity of the expert with greater care. Nevertheless, in Assirevi's view, those additional requirements can create complexities in managing the relationship with the expert, rather than *"introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts"*.

Indeed, as highlighted above (see answer to question nr. 2), the scope of these provisions appears to be very broad and, in Assirevi's opinion, should be revised and better specified considering the role that the external expert is to play, as well as the fact that the expert is not part of the audit team (assurance team), nor the auditor's organization. Furthermore, it should be assessed whether, in fact, all situations and circumstances listed by the proposed changes may actually compromise the assessment of the expert's objectivity, considering both the nature and the limited duration of the work carried out by the expert. For the same reasons, as already mentioned above (see answer to question nr. 2), it should be excluded from the assessment's scope of application the immediate family members and the organization of the external expert.

Finally, the application of independence requirements in the evaluation of the external expert's objectivity seems to bring the external expert closer to the audit team. This, on one hand, results inconsistent with the definition included in the Exposure Draft which explicitly states that an *"external expert"* is not a member of the engagement team, audit team, review team. On the other hand, it could raise interpretative doubts about the fact that, if the external expert does not meet the *"independence"* requirements provided for by the IESBA, the auditor may also consider its independence compromised.

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).

We support the application of the conceptual framework in the context of using the work of an external expert, considering that it could impact the professional accountant's compliance with the fundamental principles.

We also support the provisions proposed to apply the conceptual framework.

However, from our point of view, the formulation of paragraph 390.13 A1 (and equivalent paragraphs 290.8 A1 and 5390.13 A1) stating that “*Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a professional accountant **has satisfactorily concluded** that the external expert has the necessary competence, capabilities and objectivity for the accountant’s purpose*” could be misleading. Indeed, this paragraph seems to consider the CCO evaluation and the process of identifying, evaluating and addressing threats as two different processes, where the second one can be performed only after the positive conclusion of the CCO evaluation of the external expert.

Instead, we believe these two processes could effectively go ahead together in order to identify in a timely manner any threats arising from using the work of the external expert.

For instance, familiarity threats can be identified at an early stage. As for the CCO evaluation, the consultation clarify that it can proceed while the external expert has started working; it might be useful to explicitly provide that threats to compliance with the fundamental principles might still be created any time you use the work of an external expert (from the selection of the external expert) and the professional accountant need to monitor (and address) these threats to reduce them to an acceptable level or eliminate them if he intends to use that external expert.

With regard to paragraph 390.16 A1 and A2 concerning “addressing threats”, it could be useful to add as example of safeguard the possibility to remove from the team the relevant individual that has a close personal relationship with the external expert.