



IESBA Consultation paper:
'Professional Skepticism –
Meeting Public Expectations'

7 August 2018

CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.com +44 (0)131 347 0100 icas.com

Direct: +44 (0)131 347 0259 Email: abuttery@icas.com

INTRODUCTION

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Ethics Board has considered the IESBA Consultation Paper: 'Professional Skepticism – Meeting Public Expectations' and I am pleased to forward their comments.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

Key Points

To act in the public interest is a fundamental requirement of the accountancy profession.

In recent years there has been a decline in public trust in business and in the accountancy profession. In the UK in particular, the wider stakeholders - society, government, regulators, media etc - are expecting more from professional accountants. The Kingman Review (a review of the auditing regulator) and Project Flora (the review of audit as a product) are current UK examples that our wider stakeholders are expecting more from the profession, and this could ultimately stretch beyond the sphere of audit.

As societal requirements evolve, and the trust gap continues to grow, standards also need to keep pace. We therefore welcome the timeliness of this consultation and our ability to respond.

We are supportive of the IESBA giving greater consideration to the characteristics which should be expected of professional accountants. We agree that the concept of 'professional scepticism' is one of those traits, and enhancement of the concept within the Code will animate the Code, providing helpful practical guidance for users.

We believe that the concept of 'professional scepticism' should be applicable to all professional accountants and not just those performing audit or other assurance engagements.

We do not believe that the term or definition of 'professional scepticism' as used for the purposes of the International Standards on Auditing is appropriate for use by all professional accountants. Instead, we believe that a new 'umbrella' term and definition, for example 'enquiring mindset' or 'impartial, diligent and challenging mindset', should be developed for the Code of Ethics to highlight the concept of 'professional scepticism' for all professional accountants. We believe that the IAASB's term and definition of 'professional scepticism' could then sit as a sub-set of, for example, 'enquiring mindset' as defined in the Code of Ethics, being more indicative of how the 'umbrella' concept of 'enquiring mindset' would apply under the specific circumstances of an audit or assurance engagement.

Responses to the Specific Questions

Question 1: Paragraph 5 – Do you agree with the premise that a key factor affecting public trust in the profession is whether information with which a professional accountant is associated can be relied upon for its intended use?

We agree with this premise.

As it states in paragraph 100.1 of the IESBA Code of Ethics, “a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.”

Acting in the public interest is a defining mark of all professions. For professions, the answer to the question “who am I there to serve?” goes beyond the employer, the client, and the profession itself, to wider society.

The public need to be able to trust professional accountants because of the important role they play in serving markets and informing decisions on accountability and allocation of resources. In turn, professional accountants have a duty to maintain that trust, confidence and certainty for society.

Question 2: Paragraph 10 – Do you agree with the behaviour associated with public expectations of professional accountants? Are there aspects that should be included or excluded from the summary?

As noted in paragraph 10 of the consultation paper, the IESBA believes that the appropriate articulation of the behaviour expected of professional accountants is that they should:

- (a) Approach professional activities with an impartial and diligent mindset; and
- (b) Apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated.

We believe this summarisation could be enhanced to include more of the behaviours and actions expected of professional accountants noted in paragraph 7.

We would add to the summary the idea that you can't just have 'professional scepticism', it also needs to lead to appropriate action. The last bullet of paragraph 7 alludes to this as 'the ability and willingness to stand their ground when facing pressure to do otherwise'.

ICAS believes that professional accountants need to have 'moral courage'. ICAS has now incorporated into paragraph 100.5 of its Code of Ethics (substantively based on the IESBA Code) the following text to highlight this need for courage to act morally:

'In order to ensure compliance with the fundamental principles, an underpinning qualitative characteristic required of the professional accountant is the 'courage' to act morally. 'Courage' for the professional accountant is the need to act in accordance with the fundamental principles, especially in situations where there is a risk of suffering adverse personal consequences.

There is a need for the professional accountant to confront ethical dilemmas with courage. When facing an ethical dilemma, the professional accountant needs to have the courage to acknowledge the dilemma, to make a reasoned judgement as to the ethical action required to resolve the dilemma, and then to act accordingly.'

We would also question whether 'challenge' is fully reflected in the summarisation in paragraph 10. The second bullet of paragraph 7, states 'make informed challenges of views developed by others'. 'Impartial and diligent mindset' at 10 (a) covers the need for objectivity and thoroughness in making a judgement, but 'challenge' would reflect more of the enquiring mindset, the willingness to ask the right questions, 'digging deeper' aspect, of 'professional scepticism'.

Question 3: Paragraphs 13 and 14 – Do you agree that the mindset and behaviour described in paragraph 10 should be expected of all professional accountants? If not, why not?

Yes, we believe that the mindset and behaviour described in paragraph 10 should be expected of all professional accountants, and not just those performing audit or other assurance engagements.

Question 4: Paragraph 16 – Do you believe the fundamental principles in the Code and related application material are sufficient to support the behaviours associated with the exercise of appropriate “professional scepticism”?

We understand that it could be argued that a lot of what is in the consultation paper is already in the five fundamental ethics principles, and related application material; however, we believe further material on ‘professional scepticism’ could helpfully lead on from the fundamental principles to provide more practical guidance for users of the Code in terms of the behaviours expected of them.

New members of ICAS are required to stand at their Admissions Ceremony and verbally state an Ethics Oath:

“I declare that I will conduct myself in a manner that maintains and enhances my own professional reputation, that of my fellow members and ICAS.

As a CA, I commit myself to acting in the public interest and will conduct myself with integrity, objectivity and courage, and in accordance with the high ethical standards of ICAS.”

This serves as a tangible reminder to our new members of the significant responsibilities associated with being a Chartered Accountant. Even if these new members don’t remember the exact wording of the oath in the years to come, the hope is that they will remember the moment, and the pledge that they made that day to uphold the highest standards of ethical behaviour throughout their career.

In the same way, further guidance on such terms as ‘professional scepticism’ and ‘moral courage’ within the Code would help animate the Code.

‘Professional scepticism’ is about having an enquiring mindset, and ‘digging deeper’, and it would be helpful to have further guidance in the Code to elaborate on what the IESBA considers to be ‘professional scepticism’ and what it means in more practical terms for professional accountants.

Also, we believe that material to incorporate what the public expects of a professional accountant could usefully be included at the beginning of the Code to better highlight the important societal role that the professional accountant plays.

Question 5: Paragraph 18 – Do you believe professional scepticism, as defined in International Standards on Auditing, would be the appropriate term to use?

We do not believe that the term or definition of ‘professional scepticism’ used for the purposes of the International Standards on Auditing is appropriate for use by all professional accountants.

We agree with the concerns noted by IESBA in the bullets at paragraph 18 and in particular that: “Whilst the definition focuses on ‘*an attitude that includes a questioning mind*,’ it does so in an audit and assurance context, emphasising the assurance concepts of ‘misstatement’ and ‘evidence’, which are not appropriate for general application by all professional accountants.”

Question 6: Paragraph 19 –

(a) Do you believe that the Code should retain/use the term “professional scepticism” but develop a new definition?

Whilst we believe that the concept of ‘professional scepticism’ should apply to all professional accountants, we do not agree that the term ‘professional scepticism’ should be used when applying the concept to all professional accountants.

We share the concerns noted by IESBA in paragraph 19 of the Consultation Paper that the use of one term for two different types of behaviours and expectations would be confusing and could also threaten the robustness of the IAASB's current definition in relation to the critical assessment of audit evidence.

We believe that a new 'umbrella' term and definition should be developed for the Code of Ethics to address the concept of 'professional scepticism' for all professional accountants. We believe that the IAASB's definition of 'professional scepticism' could then sit as a sub-set of the 'umbrella' term defined in the Code of Ethics, being indicative of how the 'umbrella' concept should apply under the specific circumstances of an audit or assurance engagement.

(b) If so, do you support a new definition along the lines set out in paragraph 19?

Whilst we are concerned with the term 'professional scepticism' being applicable to all professional accountants, we believe the onus is on all professional accountants to have a challenging nature which can be applied in different ways. We would therefore support the introduction of a new term and a new definition which would be applicable all professional accountants along the lines of that set out in paragraph 19.

(c) If you do not support a definition along the lines described, could you please provide an alternative definition.

We support a new definition along the lines of that suggested in paragraph 19, however, as noted in our response to Question 2, we think that the definition proposed in paragraph 19 does not include all the elements of the concept of 'professional scepticism' identified by IESBA in paragraph 7.

We therefore propose the following amendments to the definition to reflect 'challenge' and 'acting appropriately':

"Approaching professional activities with an impartial, diligent **and challenging** mindset, applying this mindset and relevant professional expertise to the evaluation of information with which they are associated, **and taking appropriate action.**"

We note that it is key that the appropriate action is carried out following the diligent analysis of a situation, and this is where 'moral courage' comes in, as noted in our response to question 2 above.

Question 7: Paragraph 20 –

(a) Would you support an alternative term to 'professional skepticism', such as 'critical thinking', 'critical analysis', or 'diligent mindset'?

Yes, as noted above, we would prefer an alternative term to 'professional scepticism' when the concept is being applied to all professional accountants.

We are concerned that the term 'scepticism' has a cadence of "I'm not going to believe you unless I have proof", which could cause problems for professional accountants. Whilst at one end of the spectrum the term 'scepticism' can be understood as being diligent, at the other it could be viewed as cynical. We agree that for an audit there is a requirement to be sceptical; but, for those in business, if, for example, someone comes forward with a business plan, is it 'right' that you should immediately doubt it, or be cynical about it?

(b) If not, what other term(s), if any, would you suggest which focusses on the mindset and behaviours to be exercised by all professional accountants?

For all professional accountants, the concept is about the professional ability and willingness to ask the right questions - have the right assumptions been used? Is the information complete? does the information stack up?

It is akin to constructive criticism – a reality check. It is something which enhances the public's trust and confidence in the professional because the professional is able to look at something from a different angle.

'Diligent mindset'

We would suggest that the term 'diligent mindset' does not fully convey the 'challenge' required of the professional accountant – i.e. the challenge of an enquiring mindset and knowing when to dig deeper.

'Critical'

We also have concerns that the use of the word 'critical', like 'scepticism', could potentially have negative connotations.

That said, we note that the term 'critical friend' can be used in a business advisory context to mean that one does not shirk from speaking one's mind, but one is also empathetic to the client's situation.

Similarly, in academia, there is a branch of accounting research labelled 'critical accounting.' For example, a body of literature has been written advocating that financial reports should contain more information about social and environmental issues. This is 'critical' of accounting to the extent that it has identified a gap in financial reporting, but its focus is to improve financial reporting, hence is positive in nature rather than negative. Also, when students are asked to do a 'critical evaluation' in an exam, the expectation would be that they would produce a balanced evaluation rather than just a solely negative one.

Therefore, as the word 'critical' could be viewed both positively or negatively, we would advise that, if it is used by IESBA, it would need very careful definition and explanation.

Summary

We believe that when applying a phrase for all professional accountants, as opposed to just auditors, there is a need to reflect a starting point of an open mind, rather than a mind thinking 'guilty until proven innocent'.

As such, we would therefore prefer a term such as 'enquiring mindset', or 'impartial, diligent and challenging mindset'.

A term such as, for example, 'enquiring mindset', when combined with the 'moral courage' we believe professional accountants should also be expected to exercise, should ensure that professional accountants do not just ask questions and ignore difficult answers.

Question 8: Paragraph 21 – Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behaviour and relevant professional skills as described? If yes, please suggest the type of application material that in your view would be the most meaningful to enhance the understanding of these behavioural characteristics and professional skills.

Yes, we believe that additional material in the Code alongside a new term and definition would be helpful to explain the reasoning behind any new term and definition, and what it means in more practical terms for the professional accountant.

We note the issues identified by IESBA in paragraph 14 of the consultation paper, such as scalability, and suggest that matters such as these could be highlighted within additional material in the Code. 'Professional scepticism' is about a questioning mindset; however, in practice, this can be a very difficult thing to do. How can you make yourself comfortable that something is right? We therefore agree with IESBA's comments in paragraphs 23 and 24 of the Consultation Paper that this is an opportunity in terms of providing training.

Question 9: What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21?

As noted above in our response to question 6, we believe that a new 'umbrella' term and definition, for example 'enquiring mindset' or 'impartial, diligent and challenging mindset', should be developed for the Code of Ethics to address the concept of 'professional scepticism' for all professional accountants. We believe that the IAASB's term and definition of 'professional scepticism' could then sit as a sub-set of, for example, 'enquiring mindset' as defined in the Code of Ethics, being more indicative of how the 'umbrella' concept of 'enquiring mindset' would apply under the specific circumstances of an audit or assurance engagement. The definition of 'professional scepticism' in the audit and assurance context would not contradict the 'umbrella' term in the Code of Ethics, it would simply be elaborating upon what 'enquiring mindset' means in the audit and assurance context.

Question 10: Paragraph 22 – Should the Code include application or other material to increase awareness of biases, pressure and other impediments to approaching professional activities with an impartial and diligent mindset and exercising appropriate professional scepticism in the circumstances? If yes, please suggest the type of materials that in your view would be the most meaningful to help professional accountants understand how bias, pressure and other impediments might influence their work.

Yes, we agree that consideration should be given to including further practical guidance in the Code of Ethics on identifying and responding to bias, preconceptions, pressure and other types of impediments to exercising 'professional scepticism'.