

International Ethics Standards Board for Accountants
529 Fifth Avenue
New York
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13 August 2018

Dear Sirs

We are pleased to have the opportunity to respond to the proposals laid out in the Consultation Paper on “Professional Skepticism – Meeting Public Expectations”. We set out below our overall comments on the consultation, followed by detailed responses to each question raised.

Overall Comments

Whilst we fully support the application of the behaviors outlined in the consultation by all professional accountants, the term professional skepticism is a well known term which has been applied to the audit and assurance profession for some time. That term is defined in the IAASB International Standards on Auditing.

The expectations on application of professional skepticism in audit and assurance activities are, rightly, higher than the expectations of its application for other professional accountants. We are of the view that these differing levels of expectation are such that there should be a “base” level requirement for all professional accountants to apply “diligence” in their professional activities with additional requirements on audit and assurance professionals (for example, applying Professional Skepticism as currently defined in auditing standards). Whilst the application of diligence and skepticism are broadly similar, skepticism goes further in respect of the auditors’ consideration of evidence.

It is not clear what is meant by “Public Expectations” and in defining a way forward it would be helpful to have clarity over what we mean by the “public”. It is difficult to obtain direct feedback from the general public in technical matters and often other groups are taken as a proxy for the public. If possible, it may be worth testing with the true “general public” what their expectations of professional accountants are, although we accept that this is difficult to achieve in practice.

Response to detailed questions

Question 1

Yes, we consider that the ability to place reliance on information prepared and/or reviewed by a professional accountant is one factor which impacts on public trust in the accounting profession. It is imperative that the behavioural requirements are applied equally to all professional activities undertaken, and services provided by, accountants and not just auditors.

Question 2

We agree that the behaviours associated with public expectations outlined in paragraph 10 (ie impartial and diligent mindset and application of that mindset) are reasonable. However in 10(b) we believe that clarity is required as to the what is meant by “evaluation of information with they are associated”, in particular the expectations around the extent of work to be performed in evaluation of information. In this context, are there differences between the requirements of auditors and other professional accountants in the nature and extent of the evaluation expected.

Further, we consider that the skills outlined in para 24 are essential in enabling professional accountants to develop and demonstrate the behaviors set out in paragraph 10 (ie enhanced business acumen, interviewing/questioning, interrogating data, evaluating the information gained from observation and problem solving).

We also consider that the concept of ‘moral courage’, included in the ICAS Power of One series is worth exploring and including as a key behavioural attribute that the public may expect from professional accountants.

Question 3

Yes, we consider that all professional accountants should be expected to be impartial and diligent in undertaking their work.

All professional accountants are required to adhere to the IESBA Code of Ethics and are representatives of the profession. Therefore reputational risk should public expectations not be met would be the same regardless of the professional accountant’s role.

We acknowledge that the public may expect audit and assurance practitioners to apply a higher level of professional scepticism, and support the factors set out in Paragraph 14 which may impact on the nature and extent of the actions taken by the professional accountant.

Question 4

No. While we acknowledge that the requirement to exercise professional scepticism may be implicit in the Code, we consider it would be appropriate to make this requirement explicit.

We therefore agree with the comment at the end of Paragraph 16 that IESBA should consider enhancing the code with more explicit requirements over the exercise of “professional skepticism” by all professional accountants.

In terms of application material, once this requirement is made explicit we consider it would be useful to develop scenario based training material, to include different means of communication such as videos, to help illustrate how professional scepticism can be applied by professional accountants.

Question 5

No. While the concept of professional scepticism is well understood within the audit and assurance profession, its definition in the ISA’s is directed to application of professional scepticism in undertaking audit and assurance engagements only, with terms such as ‘misstatement due to fraud or error’ and ‘critical assessment of evidence’ incorporated within the definition.

We consider that the definition should be broadened to enable it to be applied by all professional accountants and drive appropriate actions as set out in Question 6b.

Question 6a

Professional Skepticism is a well known term within auditing standards. We believe that it is more appropriate to retain Professional Skepticism as a term for audit and assurance standards and refer to the behaviors required of all professional accountants by another term, for “Professional Diligence”.

If the term professional skepticism is retained it is imperative that we do not have more than one definition of the term, and the definition should be consistent between Ethical and Auditing standards, otherwise there would be confusion.

As such we consider that, if the term professional scepticism were to be retained, a broader definition should be developed to ensure that it is applicable to both audit and assurance professionals and other professional accountants. However, this definition would by necessity, “water down” the definition currently adopted in auditing standards. There would then need to be enhanced material explaining the application of skepticism for audit and assurance professionals to reflect the greater need for the application of skepticism in assesseing risk of material misstatement and critical assessment of audit evidence.

Question 6b

As noted above, we consider that introducing a new term would be preferable to redefining Professional Skepticism. The proposed definition in paragraph 19 is clearly broader than the existing definition of professional skepticism in auditing standards and could apply to all professional accountants, with the additioanl requirements of professional skepticism applying to audit and assurance activities.

However this definition does not incorporate the need to exercise a questioning mind (replacing it with impartial and diligent mindset) and replaces the need to be alert and undertake a critical assessment with applying professional expertise in evaluating information. We suggest that the definition of the new term should incorporate each of the following:

- Questioning mind
- Impartiality
- Diligent mindset
- Being alert to conditions relating to fraud or error, and
- Evaluation of information.

Question 6c

A definiton incorporating the factors above may be:

“Approaching professional activities with a questioning mind, impartiality and a diligent mindset, being alert to conditions which may arise as a result of error or fraud, and a critical assessment of information with which you are associated”.

Question 7a

As noted above, we would support an alternative term to professional scepticism rather than have either two different definitions for audit and assurance professionals and other professional accountants, or a more limited definition for audit and assurance professionals which would require additional application materials and guidance.

Question 7b

Terms proposed in the question (critical thinking, critical analysis, diligent mindsight) are more general terms which do not apply to professional activities. Above we have suggested a term such as “Professional Diligence”, which can be thought of as the professional accounting applying “due diligence” to information with which the professional accountant is associated. The nature and extent of what is may be considered “due” diligence would be scalable as outlined in the consultation document.

Question 8

Yes – we would strongly support IESBA developing additional material to highlight the importance of exercising the behaviour and professional skills described. In particular, such additional material should focus on scalability of the requirements and how the requirements for audit and assurance professionals may differ from other professional accountants.

In our view the most useful means of presenting such material would be case study/scenario based, similar to the material released by the Centre for Audit Quality but applied in a broader non-audit setting.

Question 9

The impact will be wholly dependent upon whether Professional Skepticism is redefined in the Code or whether a new term is adopted for the behaviours required of professional accountants.

If the term is redefined, then there would be a greater impact on the IAASB’s international standards as the current definition of Professional Skepticism in those standards would differ from the Code. As noted above, we do not believe it is acceptable to have two definitions of the same term. The expectations of the application of Skepticism for audit and assurance professionals is, rightly, greater than for other professional accountants and we support retaining this term for auditing standards.

On the other hand, if the Code incorporate a new term which sets out the behaviors expected, we believe that the current definition of Professional Skepticism in auditing standards may be applied over and above the requirements of all professional accountants included in the definition of a new term included in the code.

We consider that greater use of the behaviors outlined in the consultation by all professional accountants would assist auditors in performing their role by enhancing the quality of information that is prepared across all aspects of the financial reporting value chain (ie the quality of the financial statements submitted for audit would be enhanced as preparers apply greater diligence in their preparation).

Question 10

Yes, we consider that the Code should include application 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. Indeed, we consider that such material should include a focus on impediments to the application of the Fundamental Principles.

The ACCA publication “Banishing Bias” includes a section on how th main cognitive biases may affect the financial reporting supply chain and includes consideration fom both auditors’ and preparers’ perspectives.

As noted above we consider that case study and scenario based material would be most useful. For example, CA ANZ developed an online professional scepticism training course which incorporated a range of scenarios and gave respondents a score for different judgemental biases that they needed to focus on (such as “shooting from the hip” and “anchoring”).

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A further resource developed by CA ANZ that may be useful for developing application material for all professional accountants is the 'Art of Professional Scepticism' series developed for the audit profession.

The Professional Scepticism Continuum, developed by Glover and Prawitt, may also be helpful in explaining to professional accountants the need to adapt the level of professional scepticism applied based on the level of risk. Again, this resource was developed specifically for the audit profession and would therefore need to be broadened to apply to all professional accountants.

We also consider that the explanation of the key terms (curiosity, creativity, scepticism, analysis and logic) used by the IMA (included in Appendix One of the Consultation Paper) would be a useful basis of application material developed by the IESBA.

If you would like to discuss any of the points made in our response, please do not hesitate to contact me.

Yours faithfully



Dr Paul Winrow

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