

Comments on Consultation Paper – IESBA

Professional Skepticism – Meeting Public Expectations

My name is Malcolm Coates, I am a professional accounting professional with in excess of 40 years' experience having grown up at the infancy stage of SA GAAP whilst a student of accountancy at the University of Cape Town. I have been exposed to major assurance engagements locally and internationally and have been employed by major corporations in senior accounting positions.

I presently practice in Cape Town as a sole practitioner of a SMP with a broad range of clients consisting of a vast range of business disciplines and also providing a wide range of services from limited assurance to non-assurance services, including taxation, advisory and related financial services subject to IFAC guidance and adherence.

My particular passion is in servicing SME's and allowing these to use the knowledge that I have garnered over the years.

I am a member of recognized organization that is an IFAC member of good standing. Our members do not perform assurance services and offer limited assurance and related financial and non-financial services.

I am very passionate about ensuring that our profession meets public expectations and that our individual actions as professional accounting professionals are enhanced by this passion to act with the correct professional attitude and skepticism irrespective of the nature of the engagement(s) undertaken as an accounting professional irrespective under which jurisdiction one operates under. In fact, my youngest daughter is also an accounting professional employed in Stamford, Connecticut, USA as an audit manager at one of the second tier assurance firms in the USA. I imprinted into her mind that to become an effective accounting professional it was essential to know, live and be seen to be applying the ethical principles that we are bound by and to have the moral courage to be able to have the ability and willingness to stand her ground when facing pressure to do otherwise.

I am pleased and proud to say that she has proven that she has acquired these "inborn" traits and lives by these accounting tenets without bias and with great understanding of IFACS and US GAAP ethics and the practical application thereof.

The above is the driver to my contribution to this Consultation Paper. Another contributing factor is also the very unfortunate actions of a small number of our colleagues in the Big Four recently in South Africa that has blemished our profession. These unfortunate members let greed override their ethical characteristics and ignored the impact the public's expectations.

These unfortunate events had a positive side in that it has made the profession extremely aware of the public opinion of our profession and once again underscored the fact that the public at large do in fact put a value on and wants to rely on the actions and finding of assurance professionals.

It was of particular note that every person in the country suddenly became an expert (overnight) on the auditor's role and their responsibility to the man in the street and this became the dominant

conversation at all social events. It was not “cricket” to say that you were a professional accountant when asked. For a time we all had a strange illness.

The comments that are stated in this commentary are the sole input, opinions and suggestions of myself as a private individual and in no way is it intended to be other than my personal commentary regarding this critically important process as it pertains to our profession as professional accountants who owe a great responsibility in meeting public expectations and is not to be construed in any other way and is not to be construed as the position or views of the IFAC member organization that I belong to.

My interest in this Consultation Paper regarding Professional Skepticism stems largely from the lack of understanding of professionals within the SMP environment in the South African jurisdiction and these SMP's are probably no different to any other jurisdictions that are producing general purpose financials using IFRS for SME's. This is sometimes further muddled by the South African company law's requirement relating to the so-called public interest (PI) score. Some accountants believe that any accounting frame work can be used with the PI score being below 100 points, which is not always correct and is often misinterpreted. Thus these professionals believe that professional skepticism is not important as the owner/manager provided the numbers underlying the engagement. A major weakness is that the owner/manager does not understand the accounting/financial side of his business and are mostly very good at the technical side on their enterprises and treat their finances and administration as the very poor cousins in the family.

And this is exactly the platform where the understanding and application of the behavioral characteristics of professional skepticism needs to be brought to bear. If one unpacks the real meaning of skepticism one finds that the meaning has nothing to do with doubt, negativity or disbelief which is the popular belief.

Some writers prefer that the definition of skepticism is approached using the so called “scientific method” and then goes on to explain that this method is about the study and evaluation of evidence that can be derived from validated testing or by the contents a factual body of knowledge. So called anecdotal evidence very often does not offer any hard evidence or facts to substantiate this type of evidence. This often leads to the so called skeptic being labelled as negative or disbelieving. Skepticism needs to be understood as a process and not a position taken. Quoting Brian Dunning, Skeptoid Media “Extraordinary claims require extraordinary evidence, particularly in claims that are farfetched or that violate physical laws. Skepticism is an essential, and meaningful, component of the search for truth”.

{The above paragraph with acknowledgement to Brian Dunning, Skeptoid Media, @Skeptoid Media, a 501(c)(3) nonprofit}

This kind of approach should be applied by all accounting professionals to any engagements undertaken and should always be part of their professional arsenal irrespective if an assurance or non-assurance engagement is undertaken. It is thus my conclusion that Professional Skepticism should be extended to cover all accounting professional that are associated with IFAC as members providing assurance and non-assurance services.

This is also a very good opportunity to demonstrate to the client that the accounting professional can add positive value added input to the business(advice etc.) and also start to empower the clients thinking, business knowledge and what his business compliance requirements are. This also will build the trust that he has engaged an accounting professional that is supporting and advising him/her to keep his business healthy and sustainable.

For example these questions must be posed and answered

- How does the accounting professional hide away behind his/her layman client as regards complex accounting financial matters simply because of the fact that it is the client's responsibility in terms of law or otherwise to have certain documents produced and reported on that is not subject to assurance?

This will now raise the liability risk profile of the professional and this becomes another prickly pear.

- What happens in non-assurance engagements where the client inflates his expenses (personal costs expensed as business costs) to reduce tax liabilities etc.? Impact on the economy – accounting professionals view is that amounts are immaterial – consider the impact, if we all think like this, to the total fiscus and the impact on other users?
- What example are we setting to future professionals if we do not display and teach (written guidance examples) them what a questioning attitude is where doubt exists in the body of knowledge that we are working with and at some point that this knowledge may be/is theoretically impossible/wrong?

Responding to this Consultation paper

Question 1 Paragraph 5

Yes

Question 2 Paragraph 10

Yes

Question 3 Paragraphs 13 and 14

Yes, emphasis to be placed on the fact that skepticism is a process and this must be defined by IFAC.

Question 4 Paragraph 16

The IESBA must consider enhancing the Code to promote the appropriate “professional skepticism” by all professional accountants and must be defined as a process in the Code covering all engagements undertaken.

Question 5 Paragraph 18

Yes this must not be changed.

Question 6 Paragraph 19

- (a) Yes
- (b) Yes, but terms such as “critical thinking” “critical analysis” or “diligent mindset” should not be used as these should be encompassed in the new definition as they are characteristics of the process of applying “ professional skepticism”
- (c) No comment

Question 7 Paragraph 20

No –see question 6 (b) above

Question 8 Paragraph 21

Yes-

A detailed guide to Professional Skepticism can be issued setting out the process that is expected to be carried out to fulfill this critical process with specific guidance as encompassed in paragraphs 16 and 19 of the Consultation Paper.

This will most likely be the most effective and cost efficient option and it will be an “all-in-one” detailed guidance document to reference to, including addressing bias, pressure and other impediments.

Question 9 – Paragraphs 18 to 21

The implications to the IAASB International Standards as a result of the options in paragraphs 18 to 21 should not cause confusion if the IAASB and the IESBA agree and clearly define the scoping requirements of the application and process of the “new” definition and this may even have the effect that the assurance engagement is in fact enhanced in that the accounting professional will now be required to apply the process of ‘professional skepticism’ as provided in the guidance by the IESBA, particularly, where independence and impartiality is required in doing assurance and limited assurances by the professional accountants carrying out the engagements. It in fact strengthens the assurance engagement.

Question 10 – Paragraph 22

Yes. The type of materials that would be most meaningful will be to include examples of realistic real life experiences that have been experience and then set out the guidance that is

expected from the professional accountant. This guidance to be part of the document referred to in question 8 above.

A handwritten signature in black ink, appearing to read 'MCC', with a stylized flourish extending from the end.

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