

August 9, 2018

Chair  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

Re: *Consultation Paper: Professional Skepticism – Meeting Public Expectations*

Dear Members of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to provide comments on the Consultation Paper, *Professional Skepticism – Meeting Public Expectations*, issued by the International Ethics Standards Board for Accountants (“IESBA” or “Board”).

## **General Comments**

We strongly support all efforts by the Board to promote ethical behavior by professional accountants. The fundamental principles already provide a robust framework that, when applied appropriately, have the necessary flexibility to guide a professional accountant to act ethically when performing professional activities. Additional guidance can be useful to help both professional accountants in public practice and professional accountants in business understand the application of the fundamental principles, especially when being confronted by ethical decisions.

A more specific concept is the application of professional skepticism during the audit process and it is a keystone to conducting a high quality audit. However, while it is essential for a professional accountant to appropriately exercise professional skepticism when performing audits or other assurance engagements, we urge the Board not to apply the concept to professional accountants in business and professional accountants in public practice who are engaged to provide non-assurance services. A broader application has the potential for causing unrealistic expectations for a non-auditor and diluting the application of professional skepticism by auditors, both of which would be against the public interest.

Finally, we agree there needs to be accountability by all professional accountants throughout the financial reporting supply chain from the initial recording of transactions through to the preparation of the financial statements so information can be relied upon for its intended use. Such accountability will vary based on the role each professional accountant plays. There are also a variety of other professional services or activities that are regularly performed by professional accountants (e.g., preparing tax returns, compiling regulatory reports, etc.) and the Code needs to also address these services and activities. While the consultation paper discusses various elements of ethical behavior expected of a professional accountant, it is heavily focused on examples relating to the financial reporting process. It is important to apply the concepts more broadly to address applicability to a wider variety of professional services and activities.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4A, 3TR, United Kingdom.

Below we offer our responses to the specific questions in the consultation paper.

### **Specific Comments**

#### **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 a key factor affecting public trust in the profession is whether the information with which a professional accountant is associated can be relied upon for its intended use. This focus on "intended use" will impact both the preparers of the information and auditors of the financial statements. An area of concern, however, is what this means for a professional accountant in public practice who is not conducting an audit or other assurance engagement. The majority of professional services provided by professional accountants do not result in deliverables that become available to the public, but which are rather for the internal use of the client. What does this mean in the context of public interest? Presumably if the deliverables do not become available to the public, and the professional accountant did not generate the information and is not engaged to report upon it, then whether or not the information can be relied upon should not be a factor unless the accountant knows there is something wrong, as in a matter of observing non-compliance with laws or regulations (NOCLAR). We encourage the Board to think more broadly about this area.

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

We agree with the broad expectation that professional accountants should approach professional activities with an impartial and diligent mindset and apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated. These concepts are already embedded in the fundamental principles of the Code, most notably the principles of objectivity and professional competence and due care.

The challenge is managing the proper level of expectation. The expectations should vary based on the role of the professional accountant (as is the case with NOCLAR), as well as the nature of the professional service or activity and the intended use of the deliverables. For instance, there is a greater expectation for an auditor to approach the audit with an impartial and diligent mindset and evaluation of the information than a professional accountant in public practice who is performing a more basic activity such as preparing a tax return. Said another way, the professional accountant who is performing non-assurance services for a client should not be expected to, in essence, "audit" the information the client provides them in order to perform the non-assurance service the client has engaged them to perform. The professional accountant should be entitled to "rely" on that information, while being alert to circumstances where they have reason to believe such information is misleading, incorrect or fraudulent. Similarly, because of their greater professional experience, expertise and role in the organization, higher expectations should be placed on senior professional accountants in business who are directly overseeing the preparation of financial information than a junior professional accountant in business. Finally, the subjectivity of the subject matter, in all cases, should be encompassed into the expectations.

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

As described in our response to question 2, we do not object to the Code setting out broad expectations of

a professional accountant's behavior, but we believe this needs to be further expanded. We note the overall focus of the consultation paper is on the financial reporting process. However, there are a wide range of professional activities that professional accountants perform that are not related to financial reporting. For instance, the paper does not provide any examples that are relevant for a professional accountant who is not providing audit or other assurance services to a client. This is one of the most challenging areas when thinking about the concepts in this paper. For example, what are the expectations if a professional accountant is engaged to simply prepare a tax return for a client? Certainly if the information provided by the client is clearly wrong, under the fundamental principle of integrity the professional accountant must not remain associated with that information. The expectations of the professional accountant in other instances must also be clear. We urge caution if the Board is contemplating having professional accountants question all information provided to them in every instance, even when a service is provided outside an audit or other assurance engagement. This would, in effect, create a quasi-assurance engagement and would fundamentally alter the nature of such services.

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

We were not clear if Paragraph 16 is presupposing professional skepticism will apply to non-auditors or if is only in relation to current application of professional skepticism in the context of an audit.

As it relates to a professional accountant undertaking an assurance engagement, we believe the existing fundamental principles of the Code sufficiently support the behaviors associated with exercising appropriate professional skepticism. What would be most beneficial to the consistent application of the necessary level of professional skepticism is to provide further guidance and education on what it means to exhibit professional skepticism. This consistency is key to promoting the public's trust in the profession and their ability to rely on audited financial statements. We believe it is more appropriate for the IAASB to publish this guidance as part of its existing project on professional skepticism, with the necessary support of the IESBA and the IAESB.

For professional accountants providing services other than assurance services and professional accountants in business performing professional activities, the Code has guidance that adequately describes at a high level the fundamental principles of objectivity, integrity and professional competence and due care. If there is a gap between behavior and expectation, it could be that professional accountants do not understand the need to abide by the Code and what this means in the course of performing professional activities. We encourage the Board to undertake additional outreach activities, in coordination with the IAASB and IAESB, to increase awareness and develop other tools, such as case studies and FAQs, that may be more useful in assisting professional accountants as they think about various ethical dilemmas in their daily work.

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

No, we do not support using the term “professional skepticism” outside of the context of an assurance engagement. As currently defined, this concept, especially an attitude that includes “a critical assessment of the evidence” is specifically audit centric and applying it more broadly to non-assurance engagements and other professional activities performed by a professional accountant would result in unrealistic expectations for professional accountants providing services that are not assurance services. Additionally, a broader application could have the unintended consequence of diluting the concept for audits. This would not serve the public interest given the foundational significance of professional skepticism and its relationship to audit quality.

**Question 6 Paragraph 19 –**

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

We do not support developing a new definition of “professional skepticism” in order to apply this concept more broadly beyond assurance engagements. This is a long-established concept for audit and other assurance engagements and creating a new definition would be too confusing to the profession and other stakeholders. Furthermore, as mentioned in our response to Question 5, adjusting the term to make it applicable for all professional accountants would potentially dilute the audit concept and the confusion could create issues in inspection and enforcement.

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

As noted above, we do not support developing a new definition of “professional skepticism” and consider the proposed definition in paragraph 19 is already contained in the fundamental principles, especially objectivity. We recommend the Board consider whether it is necessary to develop a defined term to represent concepts that are already within the Code. We do not consider a single defined term to encompass various elements of existing fundamental principles will have a measurable impact on professional accountants demonstrating ethical behaviour. Rather, providing guidance on applying the fundamental principles robustly, including when providing non-assurance services and performing other professional activities, will ultimately support a professional accountant’s understanding of the way they are expected to behave.

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

For the reasons stated in our response to question 6(b), we do not feel there is a need for a definition when the Code has existing terms that support this concept.

**Question 7 Paragraph 20 –**

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

Per our responses to questions 6(b) and 6(c) above, while we do not believe there is a need for a newly defined term that would apply to all professional accountants, the concepts presented are important when applying the fundamental principles. We support using these concepts, as appropriate, in further developing application material in the Code.

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

Per the previous responses, we do not think a newly defined, standalone term, is needed.

**Question 8 Paragraph 21 – Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behavior 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 behavioral characteristics and professional skills.**

Yes, we strongly support the IESBA developing additional material to highlight the importance of exercising certain behaviors, but especially complying with the fundamental principles. Different types of media, such as short videos, may be especially useful to convey these principles in a digestible and meaningful way. As stated above, additional application material for the fundamental principles within the Code itself should be considered to increase professional accountants' understanding.

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

If not drafted carefully, the options in paragraphs 18 to 21 could create significant confusion and inconsistent application relative to audits and stakeholder perceptions/expectations, including with inspection and enforcement. This would harm the public interest rather than enhance it. It is for these reasons that we are not supportive of changes in the Code that would impact the concept of professional skepticism as found in the IAASB's International Standards. However, we encourage the IESBA to continue to coordinate activities with IAASB in order to further increase understanding and application of professional skepticism in the context of assurance services.

**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 skepticism 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, per our response to Question 8 we are very supportive of the development of various materials that increase awareness in the areas stated. We do not think there is a "one size fits all" approach to these efforts. Users consume information in various ways, so we encourage the Board to use a variety of techniques in order to promote these efforts.

\* \* \* \*

We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Senior Managing Director of Global Independence, via email (wgregory@deloitte.com) or at +1 203 761 3190.

Sincerely,



Deloitte Touche Tohmatsu Limited