

Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

17 August 2018

Dear Mr. Siong:

Professional Skepticism – Meeting Public Expectations

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, is pleased to comment on the IESBA's Consultation Paper, *Professional Skepticism – Meeting Public Expectations* (the Consultation Paper).

We agree that it would be beneficial to have a more consistent understanding among the Standard Setting Boards of what professional skepticism means, and expectations that stakeholders can have with regard to the behavioral characteristics that define professional skepticism. In this regard, we are supportive of the collaboration by the IESBA, IAASB and IAESB through the Professional Skepticism Working Group in their efforts to strengthen the understanding and application of the concept of professional skepticism as it applies to an audit. We believe this continued coordination will allow the Board to achieve a more holistic assessment of the Code. In addition to our responses to this Consultation Paper, we have also previously expressed our views on the concept of professional skepticism in the context of audit services in our response to the IAASB's Invitation to Comment, *Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits*, including how the concept of professional skepticism could be better described in the ISAs.

The Code's fundamental principles require both auditors and other professional accountants to act in a manner that demonstrates integrity, objectivity, professional competence and due care. These principles represent behaviors which all professional accountants are expected to exhibit.

When performing an audit, the auditor not only acts in accordance with the Code's fundamental principles but must also apply professional skepticism, as required by the ISAs. The application of professional skepticism is a process of critical thinking used when evaluating and verifying the assertions made by management and data provided by others. It is the primary objective of assurance services and is fundamental to the ability of stakeholders to place reliance on the information associated with these engagements and the related assurance reports issued by the professional accountant. However, the verification of assertions and data in connection with non-assurance services is neither the purpose nor the primary objective of non-assurance services. Therefore, applying the term "professional skepticism" to all professional services would, in our view, be misleading.

Ten specific questions were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

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 acknowledge that there are some stakeholders who have expectations with respect to the information with which the professional accountant is associated. However, the concept of reliance would only be relevant to assurance engagements where reports are issued under applicable professional standards. There is much information with which professional accountants are associated, but that does not form the basis for reliance. Therefore, it would be helpful to include within the Code more application material with regard to what is meant by being "associated" with information and the circumstances that would lead to a basis for reliance. Bringing more clarity to these concepts would help address the expectation gap that the Board discusses in the Consultation Paper.

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?

Yes, we agree with the behaviors associated with public expectations of professional accountants described in paragraph 10 (a) and (b). Applying an impartial and diligent mindset, together with relevant professional expertise – that is, the application of professional knowledge, skill and experience – is consistent with the fundamental principles of acting with integrity, objectivity, professional competence and due care.

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?

Yes, we agree that the mindset and behaviors described in paragraph 10 (a) and (b) should be expected of all professional accountants because these behaviors are implicit in the Code's fundamental principles, which apply to all professional accountants. However, as we further explain in our response to question 5 below, professional skepticism is a concept that should be reserved for assurance services. While the Board suggests that the consideration of professional skepticism by the professional accountant needs to be scalable, we believe that it is actually the application of the fundamental principles that needs to be scalable based on the inherent characteristics of the work being undertaken, and the intended context, output and use of the work performed.

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 believe that the fundamental principles in the Code are sufficient to support the behaviors associated with the exercise of appropriate professional skepticism. For example, the application material included in section 120.13 A2 of the Code provides clear linkage between the behaviors aligned with the fundamental principles and the exercise of professional skepticism. Therefore, we think that creating a new concept or requirement altogether is not necessary and risks appearing disassociated from the fundamental principles.

The Board rightfully points out the existence of an expectation gap with regard to professional accountants' exercise of professional skepticism and the public's expectations with regard to the information with which a professional accountant is associated. In dealing with expectations gaps, it is important to acknowledge the potential for lapses on all sides. While we acknowledge, as the Board has, the existence of an expectation gap, and we can understand that some stakeholders might find it useful to have more examples, perhaps within FAQs that illustrate how the professional accountant can meet the fundamental principles, we believe the existence of an expectation gap further demonstrates the importance of, and need for, further outreach and education by the profession to the public on the role and responsibilities of professional accountants under the existing relevant professional standards.

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 believe that the term "professional skepticism" should be defined within the Code in the same manner as it is defined in the ISAs, because we do not believe that the term "professional skepticism" should be applied outside the context of providing assurance services. The definition within the ISAs includes as attributes the identification of conditions which may indicate possible "misstatement" and the evaluation of "evidence", which will not be applicable in certain non-assurance services. Because the mindset and behavior described in paragraph 10 (a) and (b) should be expected of all professional accountants with regard to assurance and non-assurance services, we do not believe the term "professional skepticism" as defined in the ISAs should be used outside the assurance context. The relationship between an auditor and the client is quite different from that of an advisor (e.g., tax or broader business) and a client. The advisor's role is to provide advice to help clients achieve their objectives, whether these are the completion of an income tax return or a complex restructuring of a business, etc. In fact, in certain circumstances, the advisor is engaged to provide a service that is advocacy in nature. In that context, the professional accountant should exercise professional judgment, as discussed in section 120.5 A3 of the Code, by considering the information that the client provides as to whether it appears incomplete, unrealistic, contradicts other information of which the professional accountant is aware, or is not fit for purpose. There is not a need to verify the information in the same way as in an audit or assurance engagement (except for the fulfilment of other obligations, such as non-compliance with laws and regulations, anti-money laundering, etc.).

Therefore, to define the term professional skepticism within the Code as it is defined in the ISAs could be potentially misleading and cause confusion.

6. Paragraph 19 -

- (a) Do you believe that the Code should retain/use the term "professional skepticism" but develop a new definition?
- (b) If so, do you support a new definition along the lines set out in paragraph 19?
- (c) If you do not support a definition along the lines described, could you please provide an alternative definition?

No, we believe a new definition of the term "professional skepticism" that would be applied to all types of professional activity would be confusing. As explained in our responses to the questions above, we believe the expectations are different for audit and other assurance services than they are for non-assurance services. And as the Board has noted in paragraph 14 of the Consultation Paper, the nature and extent of the behaviors expected of the professional accountant will be impacted by a number of other factors. Creating a new definition for the term "professional skepticism" that would be applied to both assurance and non-assurance services could result in overstating its importance in the context of non-assurance services and understating its importance in the context of audits and other assurance services, and thereby not accomplish the Board's stated objective of fostering increased confidence in the financial or other information with which the professional accountant is associated.

7. Paragraph 20 -

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

No, we do not believe that a new term for professional skepticism in the context of audit and other assurance services is necessary. What we believe needs to be emphasized is an understanding of the fundamental principles, because they define what it means for a professional accountant to be professional. It is clear in the Code that professional accountants should always follow the fundamental principles in any activity, and the Board should consider how it could best reiterate or place a stronger emphasis on this requirement.

8. Paragraph 21 - Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behaviors 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.

We believe the existing fundamental principles (integrity, objectivity, professional competence and due care) already describe the mindset and behaviors that should be expected of all professional accountants, and creating a new concept or requirement altogether is not necessary and risks appearing disassociated from the fundamental principles. The Board could consider adding wording to sections 100 and 110 of the Code that conveys a strong opening message on the heightened degree of awareness all professional accountants should have with regard to expectations for adhering to the fundamental principles and exercising the appropriate behaviors. If the Board finds it necessary to develop additional application material, it should be focused on

examples of how to apply the fundamental principles in the context of various assurance and non-assurance services, which would enhance the professional accountants' understanding of the behaviors to be applied within the appropriate context.

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

In our view, there is an opportunity for the IAASB to enhance audit quality by considering how the ISAs, along with other guidance, can better assist the auditor's judgment of whether sufficient and appropriate audit evidence has been obtained. We believe this could be the underlying cause of the auditor applying (or not applying) appropriate professional skepticism.

While we fully support the behaviors that the Board is seeking to instill in all professional accountants, we strongly oppose extending the application of the term "professional skepticism" beyond its current application and specific meaning in the IAASB standards. Instead, for the purposes of the Code, we believe that the behaviors that the Board is seeking to emphasize are embedded in the fundamental principles in the Code.

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.

As we have explained above, we do not believe that the term professional skepticism should be applied outside the context of providing assurance services. However, we do believe that it would be beneficial to develop expanded material to increase the awareness of bias, pressure, and other impediments, and how they should be addressed. Factors that may have an impact on professional accountants' ability to maintain an impartial and diligent mindset in approaching professional activities include failure to acknowledge unconscious and cultural biases, failure to take into account contrary evidence or overreliance on legacy conclusions, influence of tight time commitments or lack of resources, lack of relevant knowledge and lack of appropriate review or supervision. The Board should consider developing expanded material that elaborates on the different types of biases, pressures and other impediments that can be encountered, and provides examples of behaviors that would overcome these.



We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tone.maren.sakshaug@no.ey.com) or John Neary (john.neary@de.ey.com).

Yours sincerely,

Ernst + Young Global Limited