

August 15, 2018

Mr. Ken Siong
Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017 USA

Dear Mr. Siong:

Re: May 2018 Consultation Paper, *Professional Skepticism – Meeting Public Expectations*

I am writing on behalf of the Public Trust Committee (PTC) of the Chartered Professional Accountants of Canada (CPA Canada) in response to the request to comment on the Consultation Paper entitled *Professional Skepticism – Meeting Public Expectations* (“the Consultation Paper”).

CPA Canada is the national body of Canada’s accounting profession, with more than 210,000 members both at home and abroad. The Canadian CPA designation was created with the unification of three legacy accounting designations (CA, CGA, and CMA).

CPA Canada conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally.

The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goals include achieving consistency between the provincial CPA bodies in Canada and ensuring that the processes and standards in Canada meet or exceed the international standards.

Thank you for the opportunity to provide our comments on the Consultation Paper. We commend IESBA’s effort in issuing this document and in convening international roundtables on the subject. We attended the Washington roundtable and found the discussions very useful and informative.

During our profession’s outreach on the Consultation Paper, we received feedback that the 90-day response period remains challenging for our multi-jurisdictional profession especially when IESBA consultations overlap and comment deadlines occur in the summer months.

Respectfully, we suggest that extending longer comment periods would enhance the ability of respondents to conduct meaningful consultations with stakeholders, increase efficiency and enable more thorough responses.

Overall, we found consistent support for enhancing information about professional skepticism applicable to all professional accountants within the Code through application material and we recognize and understand the desire of stakeholders of the accounting profession to emphasize this important concept. Although we generally believe that compliance with the Fundamental Principles and use of the Conceptual Framework supports the use of professional skepticism, we are supportive that the Code should evolve to emphasize the importance of professional skepticism applicable to all professional accountants.

Through our consultation efforts, we did receive feedback on specific elements within the Consultation Paper that indicated varying perspectives. We have presented below for IESBA's information where consistency and differences in views arose in hopes that it will be useful feedback to this consultation process.

Please find below our responses to the questions for input from Respondents as outlined in the Consultation Paper.

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?*

Yes, we 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 also agree that this applies in respect of financial and non-financial information and to services provided by PAPPs and PAIBs.

We also note that the terms “associated with” and “intended use” can be subjectively interpreted by the public and it is therefore critical that the profession continue to educate the public in regards to the professional accountant's roles and responsibilities. The Code is fundamental to the accounting profession and its intended use is by accountants. Alone, the standards and rules of the profession cannot address potential gaps in expectations that may arise and therefore we believe appropriate education for the broad variety of public stakeholders of the accounting profession is also critical.

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 did receive some support for the articulation in paragraph 10 noting that the phrasing, as presented, provided scope for a more or less robust interpretation. Some noted, however,

that it did not offer anything different than the Code already includes and others indicated that a change in behavior requires clearer and stronger language.

Through our consultation, some expressed that the articulation in paragraph 10 had become too distilled and that the attributes presented in paragraph 7 such as “making informed challenges” and “sensitive to the integrity of information” were not as directly presented in the summary form. It was noted that the summary articulation seemed to describe the characteristics of acting professionally without specifically emphasizing an element of doubt that is inherent to the exercising of professional skepticism.

The aspect that was not seen in the summary articulation by most was that of a questioning mind, critical thinking or critical thought. A suggestion was made that “ethical” should also be part of the description as the desired approach in performing professional activities should involve applying an ethical aspect as well as an “impartial and diligent mindset”.

Impartiality was noted as being the same or similar to the fundamental principle of objectivity by some while others questioned whether there could be limitations to impartiality depending upon the roles and responsibilities of the professional accountant. Some questioned if impartial should be replaced with critical thinking or critical thought to both improve the strength of 10 (a) and reduce the possible questions or confusion that could be encountered with a term that may be understood as the same or similar to the fundamental principle of objectivity. As we have noted in other recent responses to Exposure Drafts, we believe the fundamental principles should be used consistently within the Code and the exchange or use of other words that are the same or similar should be avoided.

Overall, the articulation in paragraph 10 was supportable with strengthening to more clearly describe what is expected of professional accountants including an element of doubt and critical awareness in approaching information with a questioning mind so as to be alert to the environment, potential bias etc. and in order to make informed challenges of views developed by others as appropriate or necessary.

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 behavior described in paragraph 10, with strengthening as noted above, should be expected of all professional accountants.

The majority consulted agreed that the expected mindset and behavior, while applicable to all professional accountants, should be exercisable in a scalable fashion in regards to the particular circumstances in terms of the nature and extent of actions to be taken by the professional accountant in demonstrating appropriate behavior depending upon a range of factors. The variety of situations and examples could be limitless but the importance for all professional accountants to exercise professional skepticism in their work was agreed.

Having said the above, a minority indicated that scalability should not apply to professional skepticism because it is foundational as a competency and should apply to the work of every professional accountant to the same extent as a competency when carrying out their various roles and responsibilities.

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”?*

Yes, we generally believe the fundamental principles in the Code and related application material are generally sufficient to support the behaviors associated with the exercise of appropriate “professional skepticism” within the Code. However, we recognize the feedback from stakeholders calling for more emphasis and believe there is room for enhancement to assist all professional accountants by most notably providing clear, strong guidance in application material that would be applicable to diverse situations and providing insights into expected behaviors.

In addition, we believe that the Code alone will not resolve the issue of professional accountants failing to exercise professional skepticism. The exercising of professional skepticism by professional accountants, in their work or practice, should also be emphasized in other regulatory areas focusing upon mandatory continuing education requirements, practice inspection programs in respect of public practices and appropriate disciplinary actions when professional accountants, including PAIBs and PAPPs, fail to comply with the obligations of professional competence and due care.

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

We received mixed feedback through our consultation with some believing the ISA definition would be appropriate as long as new application material was provided describing the underlying concepts as they apply outside of audit and assurance. Others thought a slight modification to the ISA definition would be required and some thought it would not be the appropriate term to use.

For those who were supportive of the definition, they noted it is understandable, well established and works appropriately in an audit context. Rather than alter the ISA definition, it was noted that application material could be used within the Code to explain how the underlying concepts of professional skepticism apply in a non-audit context.

Those identifying that slight modifications would be required were focused on the narrow audit context of the definition and the words “evidence” and “being alert to misstatements due to error or fraud” which were considered indicative of an audit context. They noted

while understandable, that these terms did not apply well to the broader context of roles and responsibilities of professional accountants beyond audit.

Some believed that the ISA definition would not be appropriate for reasons similar to the points immediately noted above and also, that it would be too stringent for professional accountants whose work does not consist of attesting to the reliability of financial statements. It was suggested that the distinction that is drawn in regards to objectivity and more specific independence requirements for audits within the Code could be considered as an approach in regards to professional skepticism if a broader description applicable to all professional accountants could be developed with the ISA definition being the narrower context of professional skepticism applicable to audit and assurance.

6. *Paragraph 19 –*

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

Overall, with a variety of views received and considered, we believe that the Code should retain/use the term and we do not believe that professional skepticism should be redefined. We would support new application material being added to the Code describing the underlying concepts of professional skepticism as they apply outside of audit and assurance.

As noted previously, we believe the ISA definition of professional skepticism is established and understandable. We also recognize that there could be confusion caused if the term is redefined. For these reasons, we would prefer that application material is used to capture the underlying concepts of professional skepticism and explain the behavior expected beyond audit and assurance engagements.

We believe focusing less on the precision of a defined term and more on the application material in the Code to provide guidance to professional accountants regarding the mindset and behaviors expected would be preferable.

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

Overall, we do not support a new definition as set out in paragraph 19 because professional skepticism is an understandable, entrenched term with potential risks if changed. As stated previously, we also believe the summary articulation presented needs to be strengthened.

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

We did not develop a different definition and focused instead on how the summary articulation, if strengthened, could be used as application material regarding the underlying concepts of professional skepticism for broader use beyond audit and assurance. For

example, it could be used as an introduction followed by examples and behaviors to explain professional skepticism in a non-financial reporting environment as follows:

In a non-financial reporting environment, approaching professional activities with an impartial and diligent mindset and applying this mindset and relevant professional expertise to:

- evaluate the information with which they are associated,
- other examples, behaviors etc. to be identified, developed and added.

7. *Paragraph 20 –*

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

We received some different views regarding alternative terms with the majority indicating that it would not be desirable due to the potential for confusion and risks to the existing ISA defined term of professional skepticism. Overall, we believe the terms noted could be used in strengthening the summary articulation for new application material which we believe should be added to the Code regarding the underlying concepts of professional skepticism as they apply outside of audit and assurance.

- (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?*

As noted previously, overall, we believe the articulation in paragraph 10 was supportable with strengthening to more clearly describe what is expected of professional accountants including an element of doubt and critical awareness in approaching information with a questioning mind so as to be alert to the environment, potential bias etc. and in order to make informed challenges of views developed by others as appropriate or necessary.

An element of doubt, critical awareness, a questioning mind, being ethical and acting in an ethical manner were all concepts or terms that were identified during our consultations as relevant to the mindset and behaviors to be exercised by all professional accountants.

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 believe that additional material should be developed within the Code to highlight the importance of exercising the behavior and professional skills as described in paragraph 10 with strengthening included. We believe examples and illustrations that are relevant to non-audit and assurance practitioners, PAIBs and including some specific references to

large sectors employing professional accountants such as government could be very helpful in providing insight and context for all professional accountants.

Outside of the Code, we believe there are many ways in which to provide useful information about professional skepticism and its underlying concepts applicable to all professional accountants including: checklists, Frequently Asked Questions (FAQs), on-line training, case studies and webcasts on the subject.

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

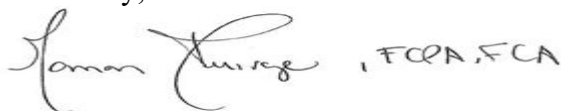
We considered this question in light of our overall suggested approach and we do not believe there will be implications to the ISAs, other than possible cross- references to the Code, if professional skepticism is not redefined, no new alternative terms are introduced and if new application material is added to the Code describing the underlying concepts of professional skepticism as they apply outside of audit and assurance capturing its relevance and importance to all professional accountants in their roles and responsibilities.

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, we believe application material would be helpful in this regard. Illustrations, examples and case studies for all professional accountants would be useful in providing suggestions for actions or matters to consider when faced with such biases and pressures. We generally noted that this could be very relevant in providing information respecting awareness to potential biases that may arise, for example, through increasing and changing technologies such as Artificial Intelligence (AI).

We thank you for the opportunity to comment on this Consultation Paper and we appreciate that further revisions to these proposals may result through the feedback provided by stakeholders.

Yours truly,



Manon Durivage, ICD.D, FCPA auditor, FCA
Chair, Exposure Draft Working Group – Public Trust Committee
CPA Canada