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Professional Skepticism – Meeting Public Expectations

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the consultation paper, Professional Skepticism – Meeting Public Expectations approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

GTIL is an umbrella organisation that does not provide services to clients. Services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding focus.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high-quality standards that will enhance the profession.

Request for Specific Comment

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?*

GTIL agrees 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. Public trust has been eroded by perceived conflicts of interest; however we believe there is a lack of understanding from a public perspective as to the scope and nature of the professional accountant's responsibilities.

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

GTIL agrees with the behaviours associated with public expectations of professional accountants and we believe there needs to be an appropriate articulation of these behaviours in the Code. We do not believe there are aspects that should be included or excluded from the summary, however, we do consider the extent of these expectations need to be effectively communicated to all stakeholders.

3. *Paragraphs 13 and 14 – Do you agree that the mind-set and behaviour described in paragraph 10 should be expected of all professional accountants? If not, why not?*

GTIL agrees that the mind-set and behaviour described in paragraph 10 should be expected and exercised by all professional accountants, as required by their engagement or service. Professional behaviours should apply consistently to all professional accountants and not only apply to auditors.

Both behaviours are conceptually described in the fundamental principles of objectivity and professional competence and due care; however the Board should consider creating application material to help professional accountants better understand and apply these principles.

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

GTIL believes the fundamental principles in the Code are sufficient to support the behaviours associated with the exercise of professional skepticism, however we believe that the application material in the Code is not sufficient to support these behaviours. Concerns have been expressed by regulators regarding auditor’s lack of professional skepticism on their engagements and there has been a plethora of media coverage regarding corporate collapses due to audit related issues.

Accordingly, we recommend the Board significantly strengthen the application material surrounding the fundamental principles containing examples to assist practitioners with the application of these behaviours.

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

GTIL does not believe professional skepticism, as defined in the International Standards on Auditing would be an appropriate term to apply to all professional accountants, as the current definition is audit focused and could have an adverse effect on non-assurance engagements.

We also agree that applying this definition to all professional accountants may dilute the current definition and adversely affect the understanding and application of professional skepticism in the context of audit and other assurance engagements.

We recommend the Board consider a broader concept and application material around the fundamental principles that encapsulates behaviours that exhibit a “curious mind-set” that can apply to all professional accountants.

6. *Paragraph 19 –*

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

GTIL believes the Code should retain/use the term “professional skepticism” for audit and assurance engagements; however we do not believe the Board needs to redefine professional skepticism to make the definition applicable to all professional accountants.

We believe the fundamental principles, especially the fundamental principle of objectivity, professional competence, and due care adequately articulate and capture the behaviours discussed in paragraph 10 of the Paper, which the Board believes should apply to all professional accountants. We believe the Board’s objectives would be better accomplished by creating a definition embodying these concepts and creating additional application material that would help professional accountants understand and apply the fundamental principles to all engagements/services.

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

GTIL does not support redefining the term professional skepticism.

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

GTIL does not support redefining the term professional skepticism; therefore we are not proposing a new definition.

7. *Paragraph 20 –*

- a) *Would you support an alternative term to “professional skepticism”, such as “critical thinking, ‘critical analysis, or “diligent mind-set”?*

GTIL would support an alternative term(s) to “professional skepticism” such as “critical thinking”, “critical analysis” or “diligent mind-set” to articulate the behaviours expected of professional accountants as discussed in paragraph 10. We do not believe a redefined definition of professional skepticism will benefit professional accountants or be in the public interest for the reasons described in 5 above.

- b) *If not, what other term(s), if any, would you suggest which focuses on the mind-set and behaviours to be exercised by all professional accountants”?*

N/A

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

GTIL agrees that IESBA should develop additional material in the Code to highlight the importance of exercising the behaviour and relevant professional skills described.

We believe the fundamental principles, especially the fundamental principle of objectivity, professional competence, and due care adequately articulate and capture the behaviours discussed in the paper that should apply to all professional accountants. We believe the Board’s objectives would be accomplished by creating additional application material that would help professional accountants better understand and apply the fundamental principles to all engagements/services. This application material can include examples around how to achieve the behaviours of critical thinking, challenging mind-set, and moral courage in the current landscape of all professional accountants.

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

Paragraph 18 – GTIL concurs with the implications outlined in the Paper in that attempting to apply the concept of professional skepticism to all professional accountants could have the following implications:

- The IAASB’s definition of professional skepticism focuses on “an attitude that includes a questioning mind” in an audit and assurance context emphasizing the assurance concepts of “misstatement” and “evidence”; which general application to all professional accountants would not be appropriate
- Application of the IAASB’s definition of professional skepticism to all professional accountants might dilute and adversely affect the understanding and application of the definition to audit and assurance engagements

- When providing non-assurance services to a client, the scope and objectives of the non-assurance services are very different from audits in that non-assurance services provided by a professional accountant are requested by the client to help them achieve a business advantage in an increasingly competitive market. A requirement to apply the IAASB’s definition of professional skepticism to professional accountants that provide non-assurance services would not be appropriate because the context of the definition is audit focused and such application could have an adverse impact on the nature and extent of the non-assurance engagement, which would not be in the client’s best interest.

Paragraph 19 – GTIL believes the Board’s proposal to redefine the term professional skepticism will adversely impact the IAASB’s definition of professional skepticism because the redefinition being proposed by the IESBA could dilute the understanding and application of the existing definition in the International Auditing Standards, especially for audits and assurance engagements. Furthermore, we believe multiple definitions of the same term will create confusion among professional accountants as to the understanding of the definition and application of its requirements for audit and assurance engagements.

Paragraph 20 – GTIL does not believe developing another term and definition encompassing “critical thinking”, “critical analysis”, or “diligent mind-set” would have an adverse impact on the IAASB’s definition of professional skepticism because these terms expand beyond an audit context and can easily be applied to all services/activities of a professional accountant.

Paragraph 21 - GTIL does not believe adding application material to the Code will have an adverse impact on the IAASB’s definition of professional skepticism.

We believe the fundamental principles, especially the fundamental principle of objectivity, professional competence, and due care adequately articulate and capture the behaviours discussed in the paper that should apply to all professional accountants. Furthermore, we believe adding application material to the Code could compliment the IAASB’s definition of professional skepticism, which would serve the public interest.

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 mind-set 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.*

GTIL agrees the Code should include application or other material to increase awareness of biases, pressure and other impediments to approaching professional activities with an impartial and diligent mind-set and exercising appropriate professional skepticism in the circumstances.

The types of materials in our view that would be the most meaningful to help professional accountants understand how bias, pressure and other impediments might influence their work would include the threats created by bias, pressure, and other impediments and appropriate safeguards that could be implemented to reduce any threats to an acceptable level. We also believe the Board should create practical examples that illustrate these concepts so professional accountants can better conceptualize situations where these threats may be created and how to effectively mitigate any threats.

GTIL would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director - Global Independence at gina.maldonado-rodek@gti.gt.com.

Sincerely,

A handwritten signature in black ink, appearing to be 'AN', written in a cursive style.

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