

15 August 2018

The International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue
New York, New York 10017

Attention: Ken Siong, IESBA Senior Technical Director

RE: IESBA Consultation Paper – *Professional Skepticism: Meeting Public Expectations*

Dear Members of the IESBA,

The Consultative Advisory Group (CAG) of the International Accounting Education Standards Board (IAESB) appreciates the opportunity to offer comments on the IESBA consultation paper referenced above. The objective of the IAESB CAG is to provide input to and assist the IAESB through consultation with the CAG member organizations and their representatives at the CAG meetings, in order to obtain (a) advice on the IAESB's agenda and project timetable (work program) including project priorities, (b) technical advice on projects, and (c) advice on other matters of relevance to the activities of the IAESB.

The IAESB is the independent global standard-setting board that sets, in the public interest, high quality international accounting education standards. In our opinion, a body of international standards that addresses expectations of education and the requisite skills and competencies of professional accountants is paramount to the profession's ability to serve the public interest. These standards enhance pre- and post-qualification education, and they address the competence needed of professional accountants worldwide that work in public practice (e.g., auditors¹) and in industry, the public sector, or elsewhere.

¹ For example, International Education Standard 8, "**Professional Competence for Engagement Partners Responsible for Audits of Financial Statements** (2016)"

The current IAESB Strategy approved by the PIOB focuses on standards development in key areas of:

- Continuous Professional Development, thereby promoting relevant and robust life-long learning
- Information & Communications Technology
- Professional Skepticism, including applicability to education of auditors and non-auditors alike
- Public Sector Accounting, Reporting and Assurance
- Education needs specific to Financial Institutions

The IAESB CAG members believe that it is important to continue to make significant and timely progress in these key areas.

Many of the CAG member organizations are providing their own separate comment letters on the Professional Skepticism Consultation. The comments provided by the CAG herein reflect the views expressed by many, but not necessarily all of the members of the IAESB CAG, and are not intended to include, or reflect, all of the comments or views that might be provided by individual members on behalf of their respective organizations. Where the CAG did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by the IAESB CAG of matters on which the IESBA requested consultation.

The following general comments on the IAESB Consultation Paper – *Professional Skepticism: Meeting Public Expectations* are offered by the IAESB CAG. These are followed up by specific responses to the questions raised in the consultation paper.

In general, the CAG is of the opinion that *professional skepticism* is a concept that applies to all professional accountants. Professional skepticism represents a questioning mindset, yet the concept of a questioning mindset needs to be placed in the context of the situation in which the professional accountant finds him or herself.

Further, the consultation paper does not address a critical aspect of a questioning mindset. A critical aspect of a questioning mindset, is a concurrent self-reflection activity. Good professionals self-monitor their thought processes even while they are thinking about the task in front of them. Hence, a questioning mindset involves a self-reflection to ensure that the

professional is fully aware of the situation and circumstances that are at play, and that all such elements have been appropriately considered.

With this overview in mind, our specific responses to the questions set out in the consultation paper are below.

Question 1: Paragraph 5 – Do you agree with the premise that a key factor affecting public interest in the profession is whether information with which a professional accountant is associated can be relied upon for its intended use?

We have concerns about the statement “relied upon for its intended use.” First, the accountant and the user(s) may have differing perspectives about the intended use. Second, this statement does not capture any inherent limitations of the professional accountant's association with the information; for example: 1) materiality considerations, 2) the accountant is engaged to provide limited or no assurance, or 3) the level of expertise of the professional accountant within an organization. We have concerns that if professional skepticism is defined in an overly broad way, it will contribute to a widening of the expectations gap.

Question 2: Paragraph 10 – Do you agree with the behavior associated with public expectations of professional accountants? Are there aspects described in paragraph 10 that should be expected of all profession accountants? Why or why not?

First, paragraph 10 must be evaluated in the context of the attributes outlined in paragraph 7. When reading these together, the CAG believes that certain characteristics are still missing related to a questioning mind. This is not captured in the term used in paragraph 10, “a diligent mindset.” The bullet points in paragraph 7 tend to over engineer the concept of professional skepticism. Further, paragraph 10 does not capture a “questioning” mindset, the critical element of self-reflection, or the fact that the definition of professional skepticism must be applied in the context of the accountant's association with the information.

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? Why or why not?

In the CAG's opinion, professional skepticism should be expected of all professional accountants. The CAG further supports the view that the factors described in paragraph 14, affect the information that may come to the professional accountant's attention, which in turn may influence the degree to which a professional accountant may be able to exercise a questioning mindset.

Further, paragraph 14 has four bullet points, yet only the first three are illustrated with examples. All four bullet points should be illustrated with examples.

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

The IAESB CAG has mixed opinions on whether the fundamental principles in the Code, and related application material are sufficient to support the behaviors associated with the exercise of appropriate professional skepticism. Some CAG members feel the discussion of fundamental principles in the code is sufficient. Others feel the fundamental principles are not sufficient to capture a questioning mindset. Further, the fundamental principles do not adequately capture the important issue of self-reflection.

Question 5: Paragraph 19 – Do you believe professional skepticism, as defined in the International Standards on Auditing, would be an appropriate term to use?

Professional skepticism, as defined in the International Standards on Auditing is too narrow, and not the appropriate term to use in the Code of Ethics for Professional Accountants. Professional skepticism needs to be defined more broadly. In particular, “evidence” is a term related to audits and many professional accountants not engaged do perform an audit will likely not have “evidence” to support their conclusions. It is appropriate for the auditing standards to be more articulate about professional skepticism, in the context of an audit engagement. However, the audit definition is not appropriate for the Code of Ethics for Professional Accountants.

Question 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**

- a) Yes, the CAG supports retaining and using the term “professional skepticism” and developing a new definition.
- b) In our opinion, an impartial and diligent mindset as stated in paragraph 19 is not sufficient.
- c) The Code needs to address a “questioning mindset” in the context of the work of the professional accountant. Further, a “questioning mindset” should include a self-reflective activity.

Question 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 focuses on the mindset and behaviors to be exercised by all professional accountants?**

- a) The CAG would not support an alternative term to “professional skepticism”.
- b) In the CAG’s opinion professional skepticism is the appropriate term. The CAG suggests it is appropriate to use a “questioning mindset” and “critical analysis” as terms to further explain the concept of professional skepticism.

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 to 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.

Yes, once a definition of professional skepticism is developed, additional material in addition to the Code would be helpful. In particular, a series of short case studies that illustrate the exercise of professional skepticism in different settings would be helpful.

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

In the CAG's opinion, the IESBA should have a requirement that all professional accountants exercise "professional skepticism." Further, we suggest the IAASB develop a different definition, or different guidance, which is appropriate for auditors. The IESBA definition should address a questioning mindset and provide some examples of how professional skepticism might differ with differing fact patterns.

Question 10: Paragraph 22 – Should the Code include application of 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 material that in your view would be the most meaningful to help professional accountants understand how biases, pressure and other impediments might influence their work.

The CAG agrees that the current discussion in the Code of biases, pressure and other impediments are limited. We concur that the IESBA should consider developing additional material to increase awareness of these and other impairments and how they should be addressed. The International Accounting Education Standards Board has commissioned a report on the literature on Professional Skepticism which addresses biases, and both accounting regulators and accounting researchers have written on the subject of conscious and unconscious biases.

Thank you for the opportunity to comment on the IESBA Consultation Paper – *Professional Skepticism: Meeting Public Expectations*.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Raymond N. Johnson", with a long horizontal line extending to the right.

Dr. Raymond N. Johnson, CPA

Chair, International Accounting Education Standards Board Consultative Advisory Group