The Institute of
Chartered Accountants
of Pakistan

CA
PAKISTAN

HEAD OFFICE

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(Submitted electronically)

Technical Director
The International Ethics Standards Board for Accountants
529, Fifth Avenue, 6th Floor
New York, USA

COMMENTS ON THE CONSULTATION PAPER
PROFESSIONAL SKEPTICISM - MEETING THE PUBLIC EXPECTATION

The Institute of Chartered Accountants of Pakistan (ICAP) is pleased to comment on the Consultation Paper "Professional Skepticism - Meeting the Public Expectation" (the Consultation Paper) published by the International Ethics Standards Board for Accountants (the IESBA) on May 14, 2018.

Our detailed responses to the questions contained in the Consultation Paper are presented in the appendix to this letter.

We hope that our comments are helpful to the IESBA's deliberation on the Consultation Paper.

Should you require further clarification on our comments, please contact the undersigned, sohail.malik@icap.org.pk

Yours truly,

Sohail Malik
Director Technical Services

Enclosed: As above

'Appendix'

Comments on the Consultation Paper - "Professional Skepticism - Meeting the Public Expectation"

Below are the comments of The Institute of Chartered Accountants of Pakistan to the 10 questions contained in the Consultation Paper.

Question 01

Do you agree with the premise that a key factor affecting the public trust in the profession is whether information with which a professional accountant is associated can be relied upon for its intended use?

We believe that reliability of the information with which professional accountant associates himself is one of the fundamental factors affecting the public interest. However, the behaviour of the professional accountants in particular circumstances will vary due to the varied roles that the professional accountants hold/undertake. In this context, the need to introduce scalability (as envisaged in paragraph 14 of the Consultation paper) requires further consideration during the IESBA discussions and further publications relating to the professional skepticism.

Question 02

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?

Question 03

Do you agree that the mindset and behavior described in paragraph 10 should be expected of all professional accountants? If not, why not?

We agree with the expectation that all the 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.

Question 4

Do you believe that 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 professional skepticism is necessary for all professional accountants in order to adhere to fundamental principles of the Code of Ethics. However, the scalability aspect of the behaviour, the different role that professional accountants undertake imply that in practice different behaviour will be required to meet the objectives of an engagement and the needs of the users for any outputs from that engagement, needs to be addressed by IESBA.

'Appendix'

Question 05

Do you believe professional skepticism, as defined in International Standards on Auditing (ISAs), would be the appropriate term to use?

We believe that it is not appropriate to use the same definition of professional skepticism as described in ISAs due to potential disadvantages mentioned in the consultation paper. We understand that the definition and explanation of professional skepticism in the ISAs is focused at the extent and nature of work needed in an assurance engagement. As highlighted in our earlier comments, the professional accountants are engaged in various roles and engagements with varying degree of responsibilities. The use of an assurance related definition of professional skepticism exposes to the risk of all professional accountants, irrespective of their roles and nature of work would be expected to demonstrate the same level of behaviour.

In this context, the definition of the professional skepticism contained in the ISAs could be the starting point for the IESBA to develop a more general definition of the professional skepticism that is relevant and applicable to all professional accountants under the Code of Ethics. Further, IESBA and IAASB can jointly work on the development of a definition to avoid differing definitions under the Code of Ethics and ISAs.

Question 06

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?**

We support retaining the term "professional skepticism", due to its familiarity, wide awareness and usage in the accountancy profession. We also support the explanation of the term professional skepticism in consideration of differing application for different engagements and roles of professional accountants.

Question 07

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 mindsets and behaviors to be exercised by all professional accountants?**

As explained above (in response to question 5 and 6) we believe that the term professional skepticism should not be replaced. However, we would mention that the focus of IESBA should be more on the development of application guidance on the professional skepticism, thereby facilitating the professional accountants in improving the understanding of what is expected of them under varying roles and circumstances.

'Appendix'

Question 08

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?

We support IESBA's approach to develop application material and consider that this will be helpful in supporting the application of the fundamental principles and appropriate professional skepticism.

Question 09

What implications do you see on IAASB's International Standards as a result of the option in paragraph 18 to 21?

We recognise that the work of the IESBA and IAASB is relevant to all the professional accountants, though with varying degrees. We note that the work of the IESBA and IAASB in the spheres of development of Code of Ethics and Auditing and Assurance Standards is often interacting, therefore, having implication on each other's work and product. In view of this, we strongly feel that the two boards should work in-coordination and consultation, on this particular project. We suggest that all possible aspects and implications of IESBA current project on professional skepticism, including the options given in paragraph 18 to 21 of the Consultation paper, shall also be considered by IAASB and addressed in IASs (if required), to avoid any misalignment between the Code of Ethics and ISAs.

Question 10

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.

We recognise the need for the application guidance on the professional skepticism as this will improve the understanding of the professional accountants. Further, this material would also facilitate in making more objective and informed decisions after considering and evaluating other stakeholders' perspective of the expected behaviour. In this regard, a suggestive approach could be the development of case studies as a supplement to the Code of Ethics.