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International Ethics Standards Board for Accountants  
529 5th Avenue  
New York, New York 10017

Re: Consultation Paper: Professional Skepticism – Meeting Public Expectations

To Whom It May Concern:

Thank you for this opportunity to submit my thoughts on professional skepticism in response to your Consultation Paper, Professional Skepticism – Meeting Public Expectations. I have previously commented to the International Audit and Assurance Standards Board (“IAASB”) on professional skepticism in my letter dated May 15, 2016. Some of the commentary in that letter might be helpful in your deliberations.

My responses to each of the questions in the Consultation Paper are presented below.

Question 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?*

The statement that, “... the information can be relied upon for its intended use,” is not clear and does not appear to take into account the role of the professional accountant, which is addressed beginning at paragraph 10 of the Consultation Paper. The role of the professional accountant is critical in understanding the nature of the responsibility for the information. A professional accountant who, working as an employee of an organization, prepares information about the organization to be used by others is directly responsible for the reliability of that information. An independent professional accountant who has been engaged to provide assurance on that information is responsible for the reliability of the level of assurance that has been provided, whether it is reasonable assurance in an audit or limited assurance in the case of a review, for example. The degree of confidence one can place on the reliability of the information, based on assurance provided by the independent professional accountant, will vary depending on the level of assurance provided. Perhaps this distinction is addressed by the words “intended use.” Even if that is the case, some clarification with regard to responsibility and assurance level is necessary. The statement included in the question to this response, as it stands, is subject to considerable misunderstanding.

Question 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?*

The appropriate description of the behavior expected of professional accountants is the Ethics Code. The behaviors described in paragraph 10 are encompassed by the five fundamental principles of ethics for professional accountants. Compared to the five fundamental principles, the description included in paragraph 10 is incomplete.

### 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? If not, why not?*

As alluded to in my response to Question 2, above, all professional accountants are required to abide by the Ethics Code, which encompasses the behaviors described in paragraph 10. The five fundamental principles already appropriately summarize the behaviors required by the Ethics Code. I do not believe it is helpful to try to further summarize those required behaviors, as something important might be missed.

### Question 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. As discussed in response to your question 6, I believe that professional skepticism requires the accountant to be objective (or impartial) and to critically assess or evaluate the information, and that there is not a need to further elaborate on other aspects of the Code in connection with this consultation. The objectivity principle demands an objective or impartial mindset, and the due care objective requires diligence, to possess the necessary competence, and to perform assignments carefully and thoroughly. I believe these requirements are sufficient to support a definition of professional skepticism along the lines of what I have proposed in my response to your Question 6 (c), and as indicated in my response to this question.

### Question 5

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

The definition included in the ISAs is appropriate in the context of an audit. This short definition contains all the necessary elements. An alternative definition may be needed for more broad application. See also my response to Question 6.

### Question 6

*Paragraph 19 –*

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

(a) Yes, I believe the concept of professional skepticism is useful, and that a revised definition is necessary if it is intended to apply to engagements other than those governed by the ISAs.

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

(b) No. In developing a new definition, the focus should be on what is needed in addition to what already is required by the Ethics Code. The proposed definition in paragraph 19 has at least two flaws. The first flaw is that it simply does not explain what it means to be skeptical, that is, to have some level of doubt. On the other hand, the ISA definition’s use of the words “questioning mind” and “critical assessment” does explain how to be skeptical (*i.e.*, to question and to be critical). The second flaw is that the proposed definition merely duplicates requirements already in the Code. To be impartial is required by the objectivity principle, and diligence is required by

the due care principle. Why is it necessary to repeat these requirements in a new definition of professional skepticism? See also my comments on questions 2 and 3. Professional accountants should be required to both adhere to the ethics code principles and to be professionally skeptical.

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

(c) A possible approach for a definition that would apply to all professional accountants is to modify the definition included in the ISAs by omitting the middle phrase, “being alert to conditions which may indicate possible misstatement due to error or fraud.” The definition would then be, “An attitude that includes a questioning mind and a critical assessment of the evidence.” Additionally, the Board might consider replacing the word “evidence” with “information.” This revised definition also can be used in the ISAs and supplemented with application guidance, as necessary.

#### Question 7

*Paragraph 20 –*

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

(a) No. The concept of professional skepticism has been with the profession for a long period of time and, if defined correctly, will supplement other principles already required by the Ethics Code. The term “critical thinking” is a very commonly used term, possibly without a consistent meaning. “Critical analysis” may suffer from the same problem. “Professional skepticism” is a term that seems to be owned by the accounting profession and would, therefore, be a preferable term to use to define expected behavior by incorporating in the definition the requirements of having a questioning mindset and performing a critical assessment.

*(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?*

(b) The proposed definition included in my response to Question 6 (c) contains the essential elements: questioning mind (or mindset) and critical assessment.

#### 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 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?*

Guidance on what it means to be skeptical, perhaps including examples of appropriately skeptical behavior, would be more helpful than only highlighting the importance of being skeptical (which ought to be self-evident). Although others have probably also developed guidance on this topic, I point out the PCAOB’s Staff Audit Practice Alert No. 10, Maintaining and Applying Professional Skepticism in Audits (“SAPA 10”), as one possible source to use in developing practical guidance.

Question 9

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

Possible implications include:

- Guidance needed for assurance engagements. A possible implication of adopting a more broadly applicable definition of professional skepticism is the need for additional guidance for use in assurance engagements. For example, the auditor must always assume there is a risk of error and fraud.
- How to apply professional skepticism to risk assessment. Another challenge is how to apply professional skepticism in the context of risk assessment. How much risk assessment is enough?
- Scalability. I am very concerned about the idea that a professional would vary the level of professional skepticism depending on the circumstances. This adds another layer of complexity on an already complex profession. For example, what is the difference between tailoring your audit response to the assessed level of risk and varying your skepticism? I believe the auditor must appropriately tailor the audit response while maintaining his or her professional skepticism. Additionally, professional skepticism is defined as a "mindset," a term defined as "the established set of attitudes held by someone," and not something that varies depending on the circumstances. It may be possible to focus instead on what the professional ought to do in response to circumstances and avoid the need to open a scalability *Pandora's Box*.

Question 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 material 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. I believe this would be very helpful and SAPA 10 provides a great starting point for such guidance.

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Please do not hesitate to contact me if you would like clarification with regard to the contents of this letter. It was my pleasure to have this opportunity to provide input to the Board.

Very truly yours,



Thomas J. Ray