

15 August 2018

Mr K Siong
IESBA Technical Director
International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017, USA
Submitted electronically to kensiong@ethicsboard.org

Dear Mr Siong

Comments on the Consultation Paper: Professional Scepticism – Meeting Public Expectations

The Independent Regulatory Board for Auditors (IRBA) is the audit regulator and national auditing and ethics standard-setter in South Africa. Its statutory Committee for Auditor Ethics (CFAE) is responsible for prescribing standards of professional competence, ethics and conduct for registered auditors. One of the IRBA's statutory objectives is to protect the public by regulating audits performed by registered auditors, thereby promoting investment and employment in South Africa.

The IRBA adopted Parts A and B of the International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the Code). This was prescribed in 2010 as the *Code of Professional Conduct for Registered Auditors* (the IRBA Code) in South Africa, with certain additional national requirements. The IRBA is currently in the process of adopting the recent IESBA revisions relating to the *Restructure of the Code, Safeguards, Professional Scepticism and Professional Judgement, and Offering and Accepting of Inducements*. The IRBA Code, with its *Rules Regarding Improper Conduct*, provides the basis for disciplinary action against registered auditors. As future amendments relating to Professional Scepticism could result in possible amendments to the Code, the IRBA has particular interest in the process.


We appreciate this opportunity to comment on the consultation paper, and present our comments under the following sections:

- A. General Comments.
- B. Request for Specific Comments and Responses.

If you have any questions or would like to discuss any specific comments, please contact:

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Yours faithfully



Bernard Peter Agulhas

Chief Executive Officer

A. General Comments

1.1. The IRBA supports the initiatives of the IESBA to:

- Explore the behavioural characteristics comprised in professional scepticism;
- Consider whether all professional accountants should apply these behavioural characteristics; and
- Consider whether the Code should be further developed, and/or other actions outside of the Code undertaken, to address behaviours associated with the exercise of appropriate professional scepticism.

1.2. We also welcome the collaborative approach which enhances efficient and effective co-operation and co-ordination between the different IFAC Boards, as professional scepticism permeates the work and disciplines of education, audit and ethics. We appreciate the efforts of the IESBA, the IAASB and the IAESB to have open communication on this topic.

1.3. Similar to the report of the International Forum of Independent Audit Regulators (IFIAR), the 2017 IRBA Public Inspections Report notes the lack of professional scepticism as a possible root cause of certain inspection findings. The 2017 report is available at <https://www.irba.co.za/upload/Public%20Inspections%202017.PDF>.

1.4. The high public interest in the project is evident. We look forward to IESBA proposals that will impact the behaviour of registered auditors and other professional accountants, as that will contribute towards creating an environment for improved audit quality and enhanced public protection.

1.5. We agree that professional scepticism should also be exercised by all professional accountants, but highlight that the application will be different for auditors and professional accountants as they consider evidence and information for different purposes. We believe that there has to be a greater degree of professional scepticism exercised by auditors based on their public interest responsibility.

1.6. In the event that a definition is developed, it would be preferable that:

- It recognises that professional scepticism is a behaviour;
- It is not equated to concepts such as critical thinking; and
- It is not regarded as a 'catch - all' behaviour.

B. Request for Specific Comments and Responses

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?

- 1.1. Yes. A professional accountant's involvement adds a level of credibility, which may lead to reliance by the intended user. However, there is also an expectation that professional accountants should demonstrate a certain type of behaviour, irrespective of whether or not reliance is being placed on the document that they are working on. This expectation relates back to the fundamental principles of integrity, objectivity, professional competence and due care and professional behaviour.

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?

- 2.1. Yes. The words "impartial and diligent mind-set" seem to be all-encompassing of behaviours we would expect of professional accountants. It should, however, be noted that the IAASB definition of professional scepticism includes the word "questioning" which seems to be missing from paragraph 10(a) of the Consultation Paper.
- 2.2. Public expectation may mean that the exercise of professional scepticism is expected to be used on an on-going basis. This expectation needs to be set up in the Code, from the onset, along with the professional accountant's responsibility to act in the public interest.
- 2.3. To the public, there may still be a question of why professional scepticism is not a fundamental principle. Creating an understanding that professional scepticism is an overarching behavioural need rather than a subset of the Code should be highlighted. It is thus suggested that professional scepticism be included alongside "acting in the public interest" as it differentiates a professional accountant from someone performing accounting services.
- 2.4. While the list provided in paragraph 7 of the Consultation Paper provides some of the behaviours expected from a professional accountant, it does not necessarily provide a direct link to professional scepticism. We suggest including the following:
 - Look for contradicting information/statements;
 - Document the challenges; and
 - Document the thought process.

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

- 3.1. Yes. However, we caution that the expectation of auditors will be different from what is expected of other professional accountants. An auditor considers evidence to express an opinion on which the public relies, while the professional accountant may

consider information that might not necessarily be relied on by the public. This does not imply “scalability”, but that professional scepticism for auditors should be different from that of other professional accountants.

- 3.2. We do not support the introduction of scalability as it may become too complex and objective. However, application material on how to exercise professional scepticism in different circumstances would be useful.

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 appropriate “professional scepticism?”

- 4.1. No. We do not believe that the current definitions, IAASB standards and the Code requirements and application material are sufficient. This is evidenced by regulators continuing to raise findings on auditors’ lack of professional scepticism.
- 4.2. We also believe that the reason for the expectation gap is a combination of the Code not containing adequate material in support of the fundamental principles, or to establish behavioural characteristics of a professional accountant, and a lack of proper understanding and adherence to the Code.
- 4.3. We caution against the potential for “anchor bias”, which could manifest when there are attempts to justify that the Code and fundamental principles are sufficient.
- 4.4. Enforceability of these provisions should be considered. Amendments that are considered should not be limited to additional application material, but rather robust additional requirements.

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

- 5.1. No, we do not believe that the IAASB term will be appropriate, especially if it is to be applied to all professional accountants.
- 5.2. We agree that the concepts of “misstatement” and “evidence” will not be appropriate for general application by all professional accountants. This is especially evident when performing “other services”.

6. Paragraph 19 –

a. Do you believe that the Code should retain/use the term “professional scepticism” but develop a new definition?

- 6.1. Yes.

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

- 6.2. Yes. We would support a strong definition in the Code. The definition provided in paragraph 19 of the Consultation Paper provides a good basis, but it is missing the important phrase “questioning mind” which is found in the IAASB definition.

6.3. This IAASB definition should not be diluted in the Code for auditors, as that would create a lower expectation for auditors, who have a wider public interest responsibility.

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

6.4. No comment.

7. Paragraph 20 –

a. Would you support an alternative term to ‘professional scepticism’, such as ‘critical thinking’, ‘critical analysis’ or ‘diligent mindset’?

7.1. No. Professional scepticism is behavioural, and any definitions should take this into account.

7.2. Professional scepticism should not be equated to concepts such as “critical thinking” as these are different and independent concepts.

7.3. The introduction of a new term might be confusing, and also imply less responsibility and accountability for other professional accountants.

b. If not, what other term(s), if any, would you suggest which focusses on the mindset and behaviours to be exercised by all professional accountants?

7.4. Not applicable.

8. Paragraph 21 – Should the 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.

8.1. We would support additional requirements rather than application material. In order to have real behavioural change, we encourage the IESBA to introduce robust requirements that are supported by application material.

9. What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21? ¹⁷(This question has been included at the request of IAASB.)

9.1. The IAASB's approach to promoting professional scepticism in its current projects is to focus on enhancing the auditor's work effort through additional requirements, for example, by introducing a stand-back requirement in International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*. We are of the view that such direct work effort related to additional requirements in revisions to the IAASB's standards is an appropriate response of the IAASB at this time, and these should continue on other open projects while a fundamental rethink on professional scepticism is pursued in the Code, and by the other independent standard setting boards.

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 scepticism 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.

10.1. Yes. We agree that the IESBA should consider developing additional material to increase awareness. Regardless of the approach taken in respect of a definition, more robust guidance on this topic is needed. However, as previously mentioned, we will prefer additional material which is in the form of requirements, to ensure that there is a greater chance of changing behaviours. The IESBA Project on the Offering and Accepting of Inducements is a good example of where further discussion could be linked to bias and pressure.