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Dear Mr Siong

Consultation Paper: Professional Skepticism – Meeting Public Expectations

We appreciate the opportunity to comment on the above Consultation Paper issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments are set out below. The appendix to this letter provides our responses to the specific questions posed in the Consultation Paper.

Overall, while we agree that the public expects and should be able to expect that information with which professional accountants (PAs) are associated can be relied upon for its intended use, we likewise believe the fundamental principles currently present in the IESBA restructured code of ethics (the Code), namely integrity, objectivity, and professional competence and due care, provide the behavioural characteristics to which PAs should adhere. We believe that the expansion of the Code to include a concept of professional skepticism, or a questioning mindset, for all PAs, beyond what is currently required in the Code, may create undue requirements for professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs) who do not perform assurance engagements (e.g. tax and advisory). Such requirements could create negative unintended consequences, for example:

- Negative impact on the timeliness of preparation and delivery of financial and certain non-financial information due to application of more extensive procedures by PAIBs to verify underlying subject matter information;
- Increased costs to companies through the application of more extensive procedures by PAIBs to verify underlying subject matter information and through increased costs of service delivery by PAPPs providing non-assurance services due to more burdensome professional skepticism requirements;

- Substantial differences in requirements related to professional skepticism for preparers of information and providers of non-assurance services that are PAs as compared to those that are not PAs could make entry into the accounting profession less attractive; and
- Increased burden of demonstrating compliance with new professional skepticism requirements by PAIBs and PAPPs providing non-assurance services, along with uncertainty as to how compliance would be evaluated or enforced.

Lastly, we believe developing application materials to expand upon the concepts underlying the existing fundamental principles in the Code would increase awareness of the behaviours to be applied by all PAs.

Please contact Sheri Anderson on +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix A: Responses to Specific Questions

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?

Yes, we believe the premise that the public expects and should be able to expect that information with which a PA is associated is prepared with the benefit of the PA's skills and experience so that the information can be relied upon for its intended use is fair.

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?

We believe that use of the term “objective” would be preferable to use of the term “impartial”. As the term “objective” is already embedded in one of the fundamental principles of the Code, use of the term “impartial” may indicate an expected behaviour that is different, and potentially more stringent, than what is expected through the fundamental principles. If the IESBA is intending that this element of behaviour be no different from the fundamental principle of objectivity, we believe the term “objective” should be used in describing the expected behaviour to achieve greater consistency of application and understanding by users of the Code. If through use of the term “impartial”, IESBA is intending a behaviour more stringent than objectivity, we believe such behaviour would be difficult to apply by PAIBs and PAPPs who are providing services to clients in an advisory or advocacy role.

Likewise, the term “evaluation” can have various meanings and its use could suggest a level of diligence that goes beyond what would be expected or appropriate in certain circumstances. Setting the expectation for behaviour of all PAs to the level of professional skepticism that is required to be applied by PAPPs in assurance engagements will place requirements on PAIBs and PAPPs providing non-assurance services above what we believe is currently mandated by the Code. We believe this could result in potentially negative unintended consequences.

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?

We believe that the requirements to apply such mindset and behaviour are already present in the Code through the fundamental principles of integrity, objectivity, and professional competence and due care, and the application guidance to those fundamental principles.

We question whether use of a new term or broadening the application of professional skepticism to all PAs would impact behaviour in the expected way. Instead, we believe elevation of this term to all PAs would have unintended consequences to PAIBs and PAPPs performing non-assurance services. We also question how PAs outside the assurance arena would demonstrate compliance with the behaviours described in paragraph 10 and how their compliance would be evaluated.

Also, contrary to IESBA's view in paragraph 13, we believe that the public does have a higher expectation of "professional skepticism" and "accumulation of evidence" for PAs providing assurance services than for PAs performing other professional activities. We believe this distinction should be explored as part of the concept of scalability when considering professional skepticism as described in paragraph 14 of the Consultation Paper and reinforced through application guidance providing examples of appropriate behaviours/actions in specific circumstances (relating to both financial and non-financial information) as a PAIB, PAPP providing non-assurance services and a PAPP providing assurance services. This would result in potential intersections with IAASB guidance related to execution of professional skepticism.

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"?

We generally believe that the current Code is sufficient as the behaviours contemplated are already embodied in the fundamental principles. Also, we are not convinced that there is significant demonstration of a lack of public trust outside of specific comments about applying professional skepticism in the context of an audit, which should be more directly addressed through the International Standards on Auditing (ISAs).

We also believe that the IESBA should develop application guidance either within the Code or in other material outside of the Code that provides examples of expected behaviour by PAIBs, PAPPs performing non-assurance services, and PAPPs performing assurance services in specific practical circumstances. This would serve to better demonstrate the expected behaviours as described in the Code.

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

No, we do not believe professional skepticism would be the appropriate term to use. Professional skepticism is traditionally used as a key concept or attribute when a professional accountant (PA) is critically assessing evidence for the purposes of achieving a level of assurance and issuing an assurance conclusion. As such, this concept may not be appropriate for all PAs, including PAPPs who provide non-assurance (e.g. tax and advisory) services and PAIBs. For these PAs, the professional

skepticism concept will be beyond what they are expected to demonstrate based on the nature of the work performed.

6. Paragraph 19 -

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

No, we do not believe the term “professional skepticism” should be retained/used with a new definition. The term “professional skepticism” is well established in the auditing standards, and we believe that use of such term with a different definition in the context of the Code would create confusion as to what is expected for PAPPs performing assurance services as compared to PAIBs and PAPPs performing other professional activities. It could also create confusion with the fundamental principles as the behaviours believed to be expected of professional accountants already have their underpinnings in the fundamental principles of the Code.

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

Not applicable.

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

Not applicable.

7. Paragraph 20 -

a) Would you support an alternative term to “professional skepticism”, such as “critical thinking”, “critical analysis” or “diligent mindset”?

As standalone concepts within the Code, we would not support use of these terms as they could undermine or cause confusion as to where such concepts fall in relation to the fundamental principles. We could support use of these types of terms in enhanced application guidance for the fundamental principles of professional competence and due care to further describe what it means to act with “diligence”. If the IESBA determines the path forward is to create a new concept for the behaviours in paragraph 10 outside of the fundamental principles, we would support this option before supporting use of the term “professional skepticism” in any fashion. In our view, this concept would serve as a basis from which the IAASB would build the principles of professional skepticism as developed in the auditing standards.

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

Not applicable.

- 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.**

We agree that this option may be appropriate in the circumstances, where no new requirements or concepts are required in the Code, but to develop additional application material to expand upon the concepts underlying the existing fundamental principles. Guidance should include examples of expected behaviour by PAIBs, PAPPs performing non-assurance services, and PAPPs performing assurance services in specific practical circumstances. Suggested types of guidance to be developed are supplementary documents or embedding footnotes, with examples, to the Code.

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

We believe that using the term 'professional skepticism' in the Code may cause confusion in the context of applying and interpreting the ISAs and as to how such term would apply in the differing roles PAs play in the financial reporting chain, particularly if the Code emphasizes scalability depending on circumstances in the context of applying professional skepticism. In the case of the other options, we believe there would be less opportunity for negative implications for the IAASB's International Standards, although any examples developed featuring assurance services would need to be carefully considered in the context of professional skepticism contemplated in the ISAs.

- 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 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.**

Yes, we believe that case studies analyzing real-life or developed events and situations would be the most meaningful way to illustrate the impact of bias and other pressures on approaching professional activities with an impartial or diligent mindset. Providing examples of biases, pressure, and other impediments will help professional accountants understand how these factors might influence their work.