

27 July 2018

Mr Ken Siong
Senior Technical Director,
International Ethics Standards Board,
529 Fifth Avenue, 6th Floor,
New York, NY 10017

Dear Ken,

CIMA RESPONSE TO PROFESSIONAL SKEPTICISM – MEETING PUBLIC EXPECTATIONS CONSULTATION PAPER

CIMA welcomes the opportunity to comment on the matters raised in the Meeting Public Expectations paper. CIMA's answers to the questions put in the paper are set out below:

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

Answer: Yes. The key duty of accountants – whether working in business or in practice – is to enable sound decision making and reporting by businesses or individuals based on adequate data and analysis. The concept of “professional skepticism” (however it is labelled) underpins the collection of adequate data and proper analysis. It is therefore a key component of the trust that can be placed by clients or others in any financial recording, reporting or analysis undertaken by accountants.

Question 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?

Answer: Yes, save that in our view the phrase “...*the evaluation of information with which they are associated*” is somewhat vague. The impartial and diligent mindset should be applied to any relevant information associated with the professional engagement or task.

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

Answer: Yes. CIMA strongly believes that the concept of “professional skepticism”, as well as professional judgement, should be applied by all professional accountants regardless of where they are employed given their professional status and influence in the financial reporting supply chain. CIMA suggests that “professional skepticism” is a fundamental characteristic applied in the work of all professional accountants including those, who like the majority of CIMA members, work in business (PAIBs).

The purpose of the Code is to protect the public and build trust in the profession. The Code, therefore, appropriately applies to all professional accountants, not just those in one area of practice. The risk of applying the concept of “professional skepticism” solely to auditing and assurance standards, is that it could undermine the perceived professionalism, and application of “professional skepticism, by all professional accountants.

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”?

No. CIMA agrees that the Code should be strengthened in this respect and would like to see (as previously suggested by IFAC’s PAIB Committee) a description and understanding of “professional skepticism” within the Code that is relevant in the context of the ethical responsibilities, and the fundamental principles, of all professional accountants. In CIMA’s view this must be a positive step towards aiding understanding of the concept and delineating appropriate behaviours for the different contexts in which professional accountants work. Again we agree with the view of the PAIB Committee that “professional skepticism” will likely require different levels of application according to the area of practice of the professional accountant. For example, the level of documentation may be less onerous for those not providing assurance services.

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

For the reasons set out above, CIMA takes the view that the concept of “professional skepticism” should apply to all professional accountants. For that reason, the adoption of the definition of “professional skepticism” set out in the International Standards on Auditing may be unhelpful, given that it appears explicitly to link the concept with assurance and audit activity. It may also encourage confusion about the concept.

Question 6. Paragraph 19 –

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

CIMA is not wedded to the use of any particular term to describe the concept of “professional skepticism”, however, as suggested above (a) there is a risk of confusion with the ISA definition; and (b) CIMA would like to see the definition extended to encompass all facets of professional accountancy, including PAIBs, with a view to encouraging in particular: the detection of fraud and error; better internal controls within organisations; and enhancing the quality of financial statements. Whatever overall definition is adopted could be supported by specific terms to identify different forms and aspects of “professional skepticism”. As IESBA’s PAIB Committee has already suggested, “professional skepticism” in the audit and assurance context could be referred to as “assurance skepticism” or “audit skepticism”. A specific reference to “assurance skepticism” would clearly differentiate the nature of “professional skepticism” in this context from other forms of “professional skepticism” which might be developed as part of a longer term project by the IESBA.

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

No. While the definition contained in paragraph 19 meets the test of applying to all professional accountants, in our view the restriction of the principle only to “the evaluation of information with which they are associated” is unhelpfully vague. It would certainly require further clarification of what is meant by “evaluation” and what information would be interpreted as being “associated” with a professional accountant in varying contexts. From the regulatory point of view, any uncertainty about the scope of the definition would create significant problems in enforcing breaches of “professional skepticism”.

- (c) If you do not support a definition along the lines described, could you please supply an alternative definition.

We favour a modification of the definition contained in ISA 200, as suggested by the PAIB Committee, along the following lines:

“An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement in an organization’s financial information or data due to error or fraud, and a critical assessment of existing evidence.”

Question 7. Paragraph 20 –

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

Yes. For the reasons set out previously, we believe an alternative term would underpin the need for the concept to apply to all professional accountants, and particularly those working in business. We do not seek to recommend any particular alternative term, provided that the definition and supporting guidance are made clear in any revised Code and application material. However, we would favour the adoption of a positive-sounding alternative, such as “diligent mindset”, “healthy curiosity” or “professional curiosity”.

- (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?

See above.

Question 8. Paragraph 21 – Should 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 describe 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.



No. CIMA believes that in order to strengthen the concept of “professional skepticism” and to give effect to its view that this concept should apply to all professional accountants, it would be preferable to include a new requirement of “professional skepticism” as part of the application of the conceptual framework. Clearly there should also be application material focused on emphasising the importance of professional accountants obtaining a sufficient understanding of the facts and circumstances known to the professional accountant when exercising professional judgment, but in CIMA’s view this cannot be a substitute for a proper definition and exposition of the concept within the Code. However, we would agree with the PAIB Committee that if a comprehensive approach to “professional skepticism” is not adopted, then at a minimum the guidance be placed together with the principle on independence in Part C of the restructured Code, because the definition of “professional skepticism” in ISA 200 and independence are concepts deployed only by those in public practice.

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

If the term “professional skepticism” is adopted within the Code with or without a revised definition, there may be some potential for confusion. Even were an alternative term adopted within the Code, it would seem sensible to ensure that it is distinguished from the IAASB’s concept of professional skepticism within both the Code and the International Standards.

Question 10. Paragraph 22 – Should the Code include application or other material to increase awareness of biases, pressure and 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. Recent news in the accountancy market (e.g. the collapse of Carillion and the FRC’s recently published reports on the Big 4 auditors) underscore the point that the level of challenge and scepticism remains a significant challenge to public and investor confidence. The failure to challenge or apply a sufficiently sceptical mindset is in part a product of cognitive bias and/or pressure. Such biases or susceptibility to pressures which may compromise the financial information supply chain are likely to affect all professional accountants (indeed arguably are a greater risk for PAIBs). Detailed case studies and/or examples of likely impediments are likely to be most helpful in assisting professional accountants understand their duties and appropriate techniques to counter impediments.



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Looking at other professions (for instance, legal professionals), the analogous concept of “acting with independence” is secured by the overriding duty all lawyers owe to the Court or to the interests of justice. For instance, a lawyer will have to exercise a degree of professional scepticism about his/her client’s account of an incident, not just because that may be in the client’s best interests, but also because of his/her overriding obligations to serve the interests of justice (and related duties, such as the obligation not knowingly to mislead the Court). One potential weakness of the concept of “professional skepticism” for professional accountants (who could for example perceive their primary responsibility to be their client or their employer) may be the lack of a coherent supervening duty, such as the public interest, which would underpin the need for “professional skepticism” in their professional activities.

Yours sincerely

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