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International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017

Dear Members of the International Ethics Standards Board for Accountants:

I am pleased to submit this comment letter to the International Ethics Standards Board for Accountants (IESBA) on its Consultation Paper, *Professional Skepticism-Meeting Public Expectations*. Responses to each specific question are below.

- 1. 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?**

Comment

Yes, I agree.

- 2. 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?**

Comment

No. I do not agree that these are the behaviors that should be articulated in the Code for a couple of reasons. First, I do not advocate for new terminology. What is the difference between objective and impartial? Why mention a diligent mindset when “due care” may be more widely accepted? Second, the requisite behaviors should come from the existing Code and the Standards. For example, auditors’ requisite behaviors include; challenging the source of the information, exercising confidentiality, performing audit procedures, and exhibiting overall professional conduct.

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

Comment

No. I don’t. Mindset might not be the most appropriate construct if the point is that the fundamental characteristics of professional accountants (e.g., competence, integrity, objectivity, etc.) need to manifest in their critical thinking, professional judgments, and behaviors. Thus, perhaps these fundamental characteristics should be included instead of the word mindset. Then, I would agree.

4. 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?”

Comment

No. The Code could increase its guidance on the exercise of appropriate professional skepticism. See Nolder and Kadous (2018) for examples of how professional skepticism is reflected in auditors’ critical thinking and professional judgments. See Kadous, Nolder, and Peecher (2019) for examples of how professional skepticism is reflected in auditors’ behaviors.

Moreover, the fundamental principles are currently not rooted in an overarching theory and thus, it is unclear whether they are sufficient to support the behaviors. Consider developing a framework that includes all of the fundamental latent characteristics of the professional accountant (e.g., competence, integrity, objectivity, independence in mind, and professional skepticism) and demonstrates how they are expected to manifest in professional accountants’ critical thinking, professional judgments, and behaviors. A need for such a framework has been suggested by several commenters responding to the IAASB’s Invitation to Comment (IAASB 2015). I included two examples below:

Chartered Accountants of New Zealand

“In addition, the concept of professional skepticism referred to throughout the ISAs could be better aligned with related concepts in the International Ethics Standards (IES’s) and International Accounting Education Standards (IAES’s). For example, the IESBA Code includes five fundamental principles; integrity, objectivity, professional competence and due care and professional behaviour. While professional skepticism is closely related to the objectivity and professional competence concepts, the link between these concepts has not been explained in the international standards. It may, therefore, be useful to provide guidance on the relationship between these concepts. Consistent use of terminology across the IAS’s, IES’s and IAES’s would assist consistent understanding and application.”

Federation of European Accountants (Belgium)

“In addition, we note that because the definition of professional scepticism is an ‘ISA driven matter’, the impact of any change to other standards should also be considered. Perhaps the IAASB could work with the IESBA to also clarify the relationship of professional scepticism to the various ethical principles such as objectivity, independence of mind, professional competence, and professional due care.”

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

Comment

Yes. Both accountants and auditors must critically evaluate information and must be alert to evidence that brings into question another person's assertions.

6. **a) Do you believe that the Code should retain/use the term "professional skepticism" but develop a new definition?**

Comment

I believe the Code should retain the term and keep the current definition.

7. **a) Would you support an alternative term to 'professional skepticism', such as 'critical thinking', 'critical analysis' or 'diligent mindset'?**

Comment

No. Professional skepticism is an underlying disposition that manifests in auditors' critical thinking, professional judgments, and behaviors. It is important for theory building to keep the latent construct separate from its manifestation (i.e., critical thinking or critical analysis).

8. **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.**

Comment

The Code would benefit from an overarching framework that is rooted in theory that defines the professional accountants' requisite characteristics (e.g., integrity, competence, professional skepticism, independence of mind, etc.) and depicts their theoretical relationship with critical thinking, professional judgements, and behaviors. Comments from the IAASB ITC in 2015 support the immediate need for such a framework. I included one example below.

Ernst & Young Global Limited

"We agree that the concept of professional skepticism is interconnected with the concept of professional judgment (as demonstrated by the diagram on page 13 of the ITC) and we support the IAASB exploring enhanced guidance to facilitate auditor judgments and the documentation of those judgments. However, we believe more may be needed; specifically, a judgment framework is useful to apply to individual judgments but it does not provide a complete perspective of how professional skepticism contributes to and underpins the audit process as a whole. For this reason, we believe it may be useful to

explore a professional skepticism framework (of which a judgment framework may be an important component) that demonstrates the process of application throughout the audit.”

9. What implications do you see on IAASB’s International Standards as a result of the options in paragraphs 18 to 21? (see questions 5-8 for these cited paragraphs)

Comment

Changes made to the way in which the IESBA conceptualizes, defines, or measures professional skepticism for professional accountants could be designed to accommodate the ISAs. For example, if the Code describes how PA’s professional skepticism manifests in critical thinking, professional judgments, and behaviors, the Code could include examples that are specific to audit vs. accounting. Explicit consideration of auditors in the Code should minimize any negative implications to the IAASB standards.

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.

Comment

Yes. I support a discussion about biases. However, any guidance regarding the biases should be linked to the requisite critical thinking, professional judgments, and behaviors in the standards. That is, there must be a theoretical foundation for justifying which biases are included. For example, the standards require professional judgments associated with evidence (e.g., reliable), others (e.g., source of evidence), and one’s self (e.g., am I objective?). The biases to include in the Code should be the primary biases for each type of judgment that poses the biggest threat to audit quality or financial statement quality based on theory.

In summary, the necessity of grounding the fundamental principles, professional skepticism, and independence of mind in theory cannot be overemphasized. Theory increases the likelihood the Code will be relevant and applied because it increases the likelihood that it will include the most relevant constructs driving professional accountants’ critical thinking, professional judgments, and behaviors. Moreover, grounding the Code in theory helps us clarify and refine the definitions of the constructs contained within, which facilitates a productive dialogue between academics on the one side and practitioners and regulators on the other side.

I appreciate the opportunity to offer comments.

Sincerely,



Dr. Christine Nolder, Suffolk University, Boston

References

International Auditing and Assurance Standards Board (IAASB). (2015). *Invitation to Comment – Enhancing Audit Quality in the Public Interest- A Focus on Professional Skepticism, Quality Control, and Group Audits.* New York, NY:

Kadous, K., C. Nolder, & M.E. Peecher (2019). The role of attitudes in auditing research and directions for future research, in Albarracin & Johnson (Eds.) *Handbook of Attitudes*, Second Edition. London: Routledge, (in press).

Nolder, C. J., and K. Kadous. (2018). Grounding the professional skepticism construct in mindset and attitude theory: A way forward. *Accounting, Organizations, & Society*.