

**Consultation Paper: *Professional Skepticism – Meeting Public Expectations***

Thank you for seeking public comment on the matters discussed in this consultation paper. My responses to the requests for comment (paragraph 25) are provided below.

**Question 1 – Agree**

**Question 2 – Agree.** Also relevant are comments made under question 3.

**Question 3**

Scalability for professional skepticism is needed in proportion to the nature and purpose of the task, and the extent of discretion the professional accountant is permitted to exercise in completing that task.

In particular, the role and experience of the professional accountant is critical to setting expectations of the professional accountant. Some professional accountants work in roles that are essentially mechanical accounting processes, with minimal expectation that judgment will be exercised, but rather, that instructions or a methodology, will be followed exactly as prescribed. While these types of accounting roles are being eliminated through the use of technology, they still exist. The professional accountant in this situation may have no authority to question the process that he/she has been engaged to complete.

It is important to differentiate between the professional accountant producing information (e.g.) to inform a complex decision, and the more senior professional accountant using that information to make the decision.

**Question 4**

The fundamental principles in the Code and related application material are sufficient to support the behaviours associated with the exercise of appropriate professional skepticism. For audit and assurance engagements there are numerous mandatory procedures and quality review procedures which “test” the skepticism and judgments applied.

In my experience, key problems for stakeholders are understanding the concept of “reasonable assurance” and the extent of work conducted in a review engagement. In respect of other assurance services, as an audit committee member and adviser to boards, I frequently need to explain the assurance work that will actually be completed in plain English. Auditors explain their work using technical audit jargon which stakeholders often have difficulty in understanding. Therefore, the work undertaken is not always an optimal fit with the work that the board needs to be conducted, and consequently the findings may be closely aligned, but not entirely fit for purpose.

This matter is compounded when an audit of the financial statements is conducted, as there is a general understanding of this audit service, but little real understanding of what “reasonable assurance” means.

I consider that the reports provided by professional accountants, auditors and assurance providers may not provide the information that stakeholders need, in language they can understand. Hence,

there may be a perception that public expectation of professional scepticism is lacking, when the root cause is that the information the public require is not being provided.

#### **Question 5**

“Professional skepticism” is a term that is well understood by assurance providers and regulators. However, this term is not used in the context of other professional services. The required behaviours that are captured by the term “professional skepticism”, are practised in the context of other professional services, but they are described using different language. It is not appropriate to introduce the term “professional skepticism” to be applicable to non-assurance service providers. It is preferable to reinforce the appropriate behaviours that are practised already, using the language that non-assurance service providers understand.

#### **Question 6**

(a) “Professional skepticism” is understood in the context of audit and assurance services and should be retained for these services only. This term is not used by non-assurance services providers, who do effectively exercise “professional skepticism” but use different language to describe the underlying behaviours. Introducing assurance language into the provision of non-assurance services may also confuse stakeholder understanding of the nature of work conducted. It would be preferable for the Code to use the same language that professional accountants use currently, when effectively they are exercising professional scepticism in non-assurance engagements.

(b) There is a fundamental difference between the behaviours that auditors and assurance practitioners need to demonstrate when exercising professional skepticism and the behaviours that non-assurance providers practise when exercising professional skepticism. This is because auditors and assurance practitioners are concerned with obtaining evidence, whereas a professional accountant is concerned with obtaining reasonable explanation.

It is entirely inappropriate to use the same term for all services. Different language should be used to explain the behaviours (akin to the exercise of professional scepticism) expected in providing non-assurance services. It is unlikely there can be any confusion as:

- Assurance services are clearly differentiated from non-assurance services; and
- It is unlikely that professional accountants will refer to those parts of the Code that are not relevant to the services they provide.

(c) The examples of other terms provided in paragraph 20 (i.e. critical thinking, critical analysis and diligent mindset) are representative of the language used currently to describe the behaviours expected when non-assurance service providers exercise professional skepticism. The Code should use these plain English terms as they are well understood by professional accountant and their clients.

#### **Question 7 – Agree**

The terms “critical thinking”, “critical analysis” and ‘diligent mindset’ could all be used to describe the behaviours expected. There is not need to provide a new defined term.

### Question 8

The terms “critical thinking”, “critical analysis” and “diligent mindset” have different meanings in the educational materials that professional accountants have used in gaining their professional designation. The Code should use these terms for a comprehensive description of expected behaviours without creating new jargon.

### Question 9

If the term “professional skepticism” is retained for audit and assurance services only, there is no impact on IAASB’s International Standards. Assurance providers will still be concerned with evidence, whereas the professional accountants in client companies will be concerned with obtaining reasonable explanation using a diligent mindset.

### Question 10

Bias (both conscious and unconscious bias) and pressures are valid threats to the quality of information prepared by professional accountants. It would be worthwhile including guidance materials to make these issues ‘front of mind’. Examples of bias include:

- “This is the way it has always been done” e.g. following methodologies or established practise without questioning whether the methodology/practise is still valid;
- Accepting formulae and links embedded in spreadsheets without checking sources;
- Accepting IT systems changes without querying why some outcomes from known processes have changed;
- Seeking to obtain a preferred outcome (e.g. less work required, maintain a practice/product line, less angst from managers etc).

Practical examples in the guidance materials would be most helpful for professional accountants to understand the behaviours that are unacceptable.

Please feel free to contact me regarding matters arising from this submission.

Yours faithfully



**S. Dianne Azoor Hughes**  
**MBusLaw, PGradDipAdvAcc, MAICD, FCA**

Governance Risk & Audit  
Email: [azoorhughes@gmail.com](mailto:azoorhughes@gmail.com)

PO Box 2072  
St Kilda West, VIC 3182  
Australia