

Professional skepticism – meeting public expectations

A consultation paper issued by the International Ethics Standards Board for Accountants (IESBA)

Comments from ACCA

August 2018

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 208,000 members and 503,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting, and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

Further information about ACCA's comments on the matters discussed here may be requested from:

Ian Waters
Head of Standards
ian.waters@accaglobal.com
+ 44 (0) 207 059 5992

Sundeep Takwani
Director - Regulation
sundeep.takwani@accaglobal.com
+ 44 (0) 207 059 5877

Tech-CDR-1763

ACCA



+44 (0)20 7059 5000



info@accaglobal.com



www.accaglobal.com



The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

ACCA welcomes the opportunity to comment on the proposals.

www.accaglobal.com

GENERAL COMMENTS

Introduction

ACCA welcomes the opportunity to comment on the proposals which, among other things, aim to 'support and reinforce the effective exercise of professional skepticism by professional accountants in audit and other assurance engagements'.¹ Beyond that, the purpose of the current consultation is set out only in broad terms, namely 'to seek input on the IESBA's consideration of the longer-term professional skepticism issues, including those summarized in the August 2017 Joint Professional Skepticism Working Group (PSWG) publication, *Toward Enhanced Professional Skepticism*'.²

We note also that 'the IESBA aims to develop an approach that will increase confidence in the financial or other information with which professional accountants are associated'.³ It would appear, therefore, that this project is as much about managing the expectations of stakeholders as it is about the ability of professional accountants to respond appropriately to the biases of themselves and others. Given the significance to this project of the expectations of stakeholders, it would be useful to understand what research has been done in this area, and what conclusions may be reached from the findings, before seeking to amend the Code. This is particularly true given the need for the restructured Code to be assimilated into existing frameworks.

We believe it is important that the scope of this project should include identifying relevant activities beyond the bounds of the Code itself. For example, the subject of due scepticism⁴ on the part of professional accountants is an ideal topic for a set of case studies, demonstrating how the fundamental principles and the conceptual framework serve to resolve such dilemmas.

We also believe that the exercise of due scepticism is of little value unless it gives rise to effective action in the public interest. Therefore, any proposed application material within the Code must be drafted with due regard to the support for whistleblowers, which may (or may not)

¹ Professional Skepticism – Meeting Public Expectations, page 4

² Ibid

³ Ibid

⁴ In this document, we avoid the use of the term 'professional skepticism', except in the context of audit and assurance engagements.

exist in different jurisdictions, and be consistent with the Code's provisions in respect of non-compliance with laws and regulations.

In July 2017, ACCA and CA ANZ (Chartered Accountants Australia and New Zealand) issued a joint response to the IESBA exposure draft on the proposed application material relating to professional scepticism and professional judgement. In doing so, we submitted ACCA's research report *Banishing bias? Audit, objectivity and the value of professional scepticism*.⁵ At that time, we agreed with the suggestion that 'proper application of, and compliance with, the provisions in the Code might also contribute to enhancing the exercise of professional skepticism'.⁶ However, we also made the following points:

- An assignment that does not meet the definition of an assurance engagement requires the exercise of due scepticism where there is the potential for bias in the production of data being evaluated or used by the professional accountant.
- If all professional accountants were required to exercise professional scepticism in exactly the same way as those performing audit and other assurance engagements, it may damage relationships between professional accountants and their clients or employers, and stifle innovation, while providing no identifiable benefit to business. It could, in fact, serve as a barrier to employing or engaging professional accountants.
- Scepticism is often important in the context of a particular non-assurance assignment. However, 'due scepticism' will mean different things in different contexts.
- It is in the public interest that guidance on due scepticism be made available to all professional accountants. However, any such guidance must be relevant to a wide range of users.
- The fundamental principle of integrity requires the professional accountant to not knowingly be associated with statements of information furnished recklessly, and the principle of professional competence and due care requires the professional accountant to not act recklessly when providing professional services. For a non-assurance assignment, there is often a lesser call for scepticism, although we acknowledge that the professional accountant must be alert to indications that the fundamental principle of integrity is being threatened.

ACCA was grateful to be invited to attend the recent series of round tables at which the subject of scepticism was discussed at length. The round tables were found to be very constructive. As a result, we perceive the main objective of this project to be aligning the responsibilities of professional accountants (when they allow themselves to be associated with a piece of work) with the understanding and expectations of stakeholders.

⁵ <https://www.accaglobal.com/uk/en/professional-insights/global-profession/banishing-bias.html>

⁶ May 2017 exposure draft, page 7

Behavioural characteristics comprised in professional scepticism

We question the need to attach the term ‘professional skepticism’ to the required behaviours of professional accountants in situations other than audit and assurance engagements. In fact, we believe it is unnecessary to attach any term to the attitudes and behaviours required of a professional accountant who is observing the fundamental principles and conceptual framework. Nevertheless, we find the bullet points set out in paragraph 7 of the consultation document useful in identifying the behaviours expected of professional accountants. We also support the statement in paragraph 10 that ‘[w]hether it is appropriate to expect all professional accountants to apply all or any of the characteristics and actions identified in paragraph 7 depends upon the nature and context of the work being undertaken and the particular role or position of the professional accountant’.⁷

However, we have concerns regarding the IESBA’s synthesis of the various behaviours to produce the articulation of the behaviour expected in paragraph 10. Parts (a) and (b) of paragraph 10 both focus on the mindset of the professional accountant, which is something that is difficult to assess – even by a reasonable and informed third party. As a requirement of the Code, it would be even more difficult to enforce. It also fails to address the appropriate actions that should arise out of the application of the appropriate mindset to the evaluation of information. In many circumstances, this would require a degree of moral courage and an effective support framework (including protection for those who speak up).

Whether all professional accountants should apply these behavioural characteristics

The consultation paper makes clear that the expectations of the public exist without necessarily understanding the role of a professional accountant or other factors, such as the professional accountant’s experience, the extent of judgement involved in decision-making, or the complexity of a particular issue. In addition, the ability of a professional accountant to challenge bias requires competence to challenge appropriately. Therefore, a public expectation that a professional accountant will always have the mindset described in paragraph 10 is unreasonable.

The factors in paragraph 14 illustrate clearly the need for scalability. Hence, we refer to ‘due scepticism’ throughout this response, recognising that different levels of scepticism may be expected to be exercised in different situations.

We believe that placing an unreasonable responsibility on all professional accountants to exercise scepticism would have unintended consequences: not only would it place an unreasonable burden on professional accountants; but it would also make it less attractive, in

⁷ Professional Skepticism – Meeting Public Expectations, page 6

some cases, to engage a professional accountant. Care must also be taken to ensure that those charged with governance of an entity (in particular, directors) are clearly seen as responsible for financial information, and that they remain accountable to stakeholders.

Possible development of the International Code of Ethics for Professional Accountants

We are surprised to see the statement in respect of the Code's contents: 'There is no requirement that all professional accountants exercise professional skepticism.'⁸ We believe the requirement to exercise appropriate levels of scepticism is found within the fundamental principle of integrity, and so permeates throughout the Code. An understanding of how the exercise of integrity interacts with the need for objectivity and the development of professional competence makes the need for due scepticism (according to the circumstances) even clearer.

Paragraph 16 of the consultation paper states that 'there is a public expectation that information with which a professional accountant is associated can be relied upon for its intended use'.⁹ If this is the case, then the expectations of the public are unreasonable. (Such reliance is, of course, the purpose of an assurance engagement.) We believe this fundamental misunderstanding of the public should be addressed, and the proposals in (a) to (c) of paragraph 16 will not address this expectation gap.

The four suggested possibilities for amending or supplementing the Code, set out on pages 8 to 10 of the consultation paper, may be summarised as follows:

1. all professional accountants to exercise 'professional skepticism' as currently defined in International Standards on Auditing
2. 'professional skepticism' to be redefined, with application material to allow for scalability
3. another (scalable) term to be used and defined
4. application material to be developed, expanding on the concepts underlying the fundamental principles.

Of these, we consider the fourth to be the preferred approach. We support the explanation in paragraph 21 of the consultation paper, which states 'The objective would be to address the fact that, although implicitly embedded in the Code, the key behavioral characteristics that underpin "professional skepticism" in the broader context do not currently have sufficient profile, or the focus necessary, to promote the behavior sought.'

⁸ Professional Skepticism – Meeting Public Expectations, page 5

⁹ Professional Skepticism – Meeting Public Expectations, page 8



Summary

We are grateful to the IESBA for providing ACCA with the opportunity to attend round table events, which were organised to discuss this consultation paper. It is our perception that the use of the words 'professional skepticism' was not popular among the delegates at those events, except in respect of assurance engagements. It appears to be generally accepted that care must be taken not to diminish the clarity of the term 'professional skepticism' in relation to assurance engagements, or weaken the impact of International Standards on Auditing.

We believe it is, in fact, unnecessary to apply any defined term to the sort of scepticism that may be expected of professional accountants more widely. It is more important to focus on the attitudes and behaviours of professional accountants. The expectations of the public are a separate matter, which can only impact the work of the professional accountant if he or she knows what those expectations are.

We recognise that there is a public perception that professional accountants add value when they are associated with any report or other work, and the good reputation of the profession that ensues is itself in the public interest. Therefore, it may be assumed that professional accountants will question (to the extent appropriate) information that they receive and use in their work.

We believe that there is a strong feeling among interested parties that the Code should remain principles-based. Any unnecessary amendment of the Code should be resisted if the conceptual framework (recently enhanced through the restructure project) is to be seen as effective. However, if a professional accountant is to remain aware of the need for a degree of due scepticism (known by whatever name) as appropriate to the engagement, a mechanism is required that will focus the mind of the professional accountant on the importance of the fundamental principles in this respect. (The exercise of due scepticism supports the fundamental principles of objectivity, professional competence and integrity.)

In our view, linking the fundamental principles to the professional accountant's public interest responsibility would be particularly effective. Therefore, we would support application material in Part 1 of the Code to include the following elements:

- an introduction that emphasises the need to act in the public interest (as already stated in section 100), and links this to compliance with the fundamental principles
- an explanation of the required behaviours and outcomes expected of a professional accountant, and flowing from compliance with (and safeguarding of) the fundamental principles
- the fundamental principles themselves (including an explanation of how objectivity, integrity and professional competence interact, at times, to give rise to the need for due scepticism)



- application material to explain how cognitive bias might be recognised – in a client, employer, the professional accountant or a third party.

At the round table events, there appeared to be a high level of support for application material along these lines. Alternatively, it might be effective to introduce explanatory material as a staff paper alongside the Code, which may be integrated into the Code in due course.

The approaches of the standard-setting Boards must be joined-up. This should include recognition of the need for education in respect of the professional accountant's public interest responsibility, which includes the need to challenge information and assumptions where appropriate. Furthermore, education within colleges must promote the importance of ethics in finance, and relate that to society's expectations of professionals.



AREAS FOR SPECIFIC COMMENT:

In this section, we set out our responses to the specific questions set out in section IV of the consultation paper.

Question 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?

On the surface, this premise appears very reasonable. However, it is not expressed sufficiently clearly to be applicable to all professional accountants and their variety of different roles. The important factor when considering the extent to which the public may rely on information is whether the public is aware of the professional accountant's association with the information and the role he or she has played. Fundamentally, if the public is aware of the professional accountant's involvement, his or her role must be made clear, and the professional accountant must then determine the extent to which due scepticism will be expected.

A professional accountant must, of course, be trusted to fulfill their role, and this places a responsibility on the professional accountant to act competently and ethically. But this question, as drafted, highlights the problems with identifying a premise that has sufficiently broad application. The IESBA must be clear about what is meant by 'associated', and the extent to which 'reliance' (from a technical and ethical perspective) may be appropriate.

Above all, we believe that the expectation gap must be closed – to retain trust in the profession and serve the public interest. An assurance engagement must be clearly identifiable as such; and a professional accountant's role and responsibilities in respect of other engagements (or in an employed role) must be clear to those using the resultant information.

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?

We recognise that there is pressure from certain stakeholders for the Code to better reflect the public's expectations of a professional accountant. However, we doubt whether the elements of paragraph 10 fully cover those expectations. Due scepticism is a state of mind which requires a certain skillset, which must be developed through learning and experience, and which must result in appropriate action (requiring the ability to challenge).

We believe that paragraph 10 goes some way to articulating the behaviour expected of a professional accountant. However, the consultation paper takes the characteristics and actions identified in paragraph 7 and, instead of expressing them in a way that widens their application, it provides a narrower articulation of the expectations in paragraph 10.

The impact of this is that paragraph 10 focuses less on the professional accountant's behaviour than on a mindset. Although there is an expectation that the mindset will be applied to the evaluation of information, there is no expectation that the professional accountant will actively challenge that information. (Neither does this paragraph acknowledge that more junior professional accountants may lack the competence to challenge appropriately.) To the extent that due scepticism is expressed as an expected mindset of the professional accountant it will be unenforceable.

Question 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?

Subject to reservations already expressed, we agree that the public expectation of all professional accountants is that professional accountants adopt a mindset similar to that articulated in paragraph 10. However, the factors listed in paragraph 14 illustrate clearly the need for the scepticism requirement to be scalable. In order to achieve reasonable expectations, we suggest that a defined term does not need to be applied to the relevant degree of scepticism that will serve a wide range of situations. In fact, it may be more appropriate to publish guidance and other resources alongside the Code than to introduce new application material into the Code itself.

Question 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 skepticism'?

Broadly, we agree. However, we also believe that the Code would be strengthened by the inclusion of an overarching requirement that the professional accountant shall uphold the public interest. Please refer to our proposals as set out under 'Summary' above.

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

We are strongly opposed to this suggestion, as we believe that the disadvantages set out in paragraph 18 (and others articulated within our general comments above) far outweigh any advantages of this proposed approach.

Question 6: Paragraph 19:

- (a) Do you believe that the Code should retain/use the term ‘professional skepticism’ but develop a new definition?
- (b) If so, do you support a new definition along the lines set out in paragraph 19?
- (c) If you do not support a definition along the lines described, please provide an alternative definition.

We do not believe that simply amending the definition to make it scalable is the best option. As already explained, we do not believe it is necessary to define a term for the degree of scepticism to be expected of the professional accountant. In fact, to refrain from doing so might encourage greater flexibility (according to the circumstances).

Question 7: Paragraph 20:

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

We would support this, although we would also question whether any defined term (new or otherwise) is necessary. We believe that focusing on a term to describe the appropriate degree of scepticism to be exercised across a wide range of different situations would risk professional accountants adopting an inflexible approach to determining the appropriate course of action (with little regard for the underlying principles).

Nevertheless, if it is decided that a defined term is necessary, in order to differentiate the concept from that of ‘professional skepticism’ relevant to audit and other assurance engagements, we would suggest a generally applicable term should be adopted, such as ‘due skepticism’ (which suggests scalability and the exercise of professional judgement in all circumstances).

Question 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.

We believe there would be significant value in developing material with the objective of closing the expectation gap between professional accountants, their clients or employers and the public. We have set out in our general comments what application material within the Code might look like. However, of paramount importance is clarity for the public, which would suggest that application material within the Code may not be sufficient.

In addition to clarity for the public, professional accountants must learn to exercise due scepticism in practice, according to the circumstances. We believe that competence in this respect may be enhanced by the use of case studies, and there is a role for the IESBA in publishing (or promoting) such resources.

We would not support any material within the Code that would suggest a requirement to exercise moral courage. Moral courage has, historically been seen as a virtue, which one may seek to acquire. But it is unreasonable to assume that every professional accountant will possess it.

The exercise of moral courage implies 'standing one's ground', and ultimately (as a natural extension) being prepared to speak out where necessary. Any requirement of the Code to exercise such moral courage must be consistent with existing requirements regarding non-compliance with laws and regulations, in light of the fact that there might not be adequate support for whistleblowers in all jurisdictions.

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

We have little further to add in this respect, and we would not disagree with the consultation paper where it sets out the disadvantages of extending the use of the term 'professional skepticism'. We believe that these disadvantages outweigh any advantages.

It is important that the IESBA continues to collaborate with both IAASB and IAESB. On the assumption that the IESBA will decide not to pursue either of the options involving the use of the term 'professional skepticism', the involvement of the IAASB should simply involve the IAASB being kept informed of developments. However, in relation to the IAESB, it is essential that International Education Standards properly support any changes made to the Code.

Changes to the Code alone will not achieve the desired outcomes. Stakeholders such as professional bodies, firms, etc must all play their part in ensuring that training in the relevant behaviours expected of a professional accountant is provided to all those joining the profession.

Question 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.

ACCA has previously submitted to the IESBA its research report *Banishing bias? Audit, objectivity and the value of professional scepticism*.¹⁰ While any additional application material should not be too lengthy, some of the principles within this document could be highlighted.

As suggested under question 8 above, we believe it is important that the IESBA is also prepared to signpost available research and resources in order to make professional accountants (and others) aware of the threat of bias and how that threat may be addressed. We recommend that guidance material such as this should be highlighted on the IESBA website, but not necessarily incorporated within the Code.

¹⁰ <https://www.accaglobal.com/uk/en/professional-insights/global-profession/banishing-bias.html>

GENERAL COMMENTS

Small and Medium Practices (SMPs):

This topic is of particular significance to SMPs and SMEs. Due to the more limited resources within SMPs and SMEs, it is important that the Code is supported by relevant guidance and other resources if behaviours are to change and the public are to understand the responsibilities of professional accountants.

Regulators and audit oversight bodies:

Any changes to the Code must focus on the desired outcomes, and the behavioural changes that will be perceived by the public, rather than simply whether the Code's requirements are comprehensive. Therefore, the drafting of the Code must be clear, and it must be drafted with due regard to enforceability.

Developing nations:

The pace of change is always a problem for developing nations. Therefore, any changes to the Code should be in one place (if possible), and any supporting guidance and resources should be clearly signposted.

Translations:

The use of any new term (or terms) to explain the appropriate degree of scepticism in different situations will cause problems in translation. Therefore, we suggest generally understood phrases, such as 'due skepticism' will convey the principle without requiring definition.



