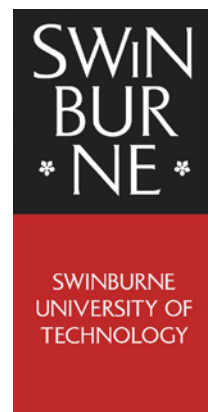


14 August 2018

Mr Ken Siong
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International Ethics Standards Board for Accountants
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Dear Mr Siong,

Consultation Paper Professional Skepticism – Meeting Public Expectations

Thank you for the opportunity to comment on the Consultation Paper (CP) Professional Skepticism – Meeting Public Expectations. Our comments have been prepared after considering the CP and attending the roundtable session held in Melbourne, Australia last month.

We welcome initiatives of the International Ethics Standards Board for Accountants (the Ethics Board) to further improve the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

However, we do not support the proposition that the Code would be improved by making “professional scepticism” a requirement of all professional accountants.

We understand the cornerstone of the Code is the public interest responsibility – the distinguishing characteristic of the professional accountant. A professional accountant acts ethically and in accordance with the five fundamental principles, being: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.¹

The Code also requires professional accountants to apply a conceptual framework to identify, evaluate and address threats to compliance with the five fundamental principles. Applying the conceptual framework requires the profession accountant to exercise professional judgement.

In relation to undertaking professional activities, the exercise of professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. (Section 120.5 A1)

Acting in the public interest

We consider the requirement to act in the public interest is embedded in the Code. For example:

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. A professional accountant’s responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements

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¹ When responding to non-compliance with law and regulations (NOCLAR), the Code at Section 260.4 requires professional accountants to set aside the principle of confidentiality, and to comply with the principles of integrity and professional behaviour report NOCLAR to an appropriate authority, if that is in the public interest.

and application material to enable professional accountants to meet their responsibility to act in the public interest. (Section 100.1 A1)

Professional skepticism

We observe it is now well accepted that a foundational aspect of audit quality and the integrity of the audit process is the application of professional skepticism in the audit of financial statements (and reviews and other assurance engagements).

While we agree with the view expressed in the Code that in the context of audit, professional skepticism and the fundamental principles are inter-related concepts (Section 120.13 A1) we do not think this relationship holds for all professional accountants. We do not think professional scepticism has the qualities of the five fundamental principles that are fundamental to the public interest responsibility of all professional accountants.

Further, we think the propositions put in the CP represent a blurring of the two terms “professional skepticism” and “professional judgement”. In the context of audits, reviews and other assurance engagements the relationship between the terms is articulated in statements addressing independence.

Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism. (Section 120.12 A1(a))

Clearly, the terms are not synonyms and we think it important to keep separate their different foci.

Were the Ethics Board to proceed with work to broaden the application of professional skepticism to all professional accountants, we think the outcome would be:

- a dilution in the existing construct of professional skepticism and its application to auditors; and
- unintended negative consequences for the quality of financial reporting.

Expectation gap

We acknowledge that there is not necessarily a shared view among stakeholders including professional accountants as to what is expected of professional accountants. To help address this expectation gap, we encourage the Ethics Board to undertake a body of work that emphasises communication to and education of professional accountants and other stakeholders (including those charged with the governance of entities, clients, lenders and shareholders).

Our responses to the questions posed in the CP follow.

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?

Yes, we agree.

Question 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?

No, we do not agree.

The Code is about the responsibility to act in the public interest – the distinguishing characteristic of the professional accountant.

The behaviour expected of professional accountants should be expressed upfront of the Code.

It is through “living” the five fundamental principles expressed in the Code (subject to non-compliance with laws and regulations [NOCLAR]) that the professional accountant satisfies their responsibility to act in the public interest. These are the behaviours associated with expectations of professional accountants and the Ethics Board needs to ensure this expectation is communicated and reinforced to all stakeholders including professional accountants.

Question 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?

No, we do not agree.

We believe the Code clearly articulates expectations about behaviour as they apply to all professional accountants by role and level of experience.

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?”

We do not support the premise that professional skepticism should inform the construction of the fundamental principles and their application material.

In our view, professional scepticism does not have the qualities of the five principles that are fundamental to the public interest responsibility of all professional accountants.

We do not support the idea of extending the use of the application of the concept of professional skepticism beyond its current use in the audit of financial statements, reviews and other assurance engagements.

Accordingly, we do not support any work of the Ethics Board to extend the application of professional skepticism.

Question 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 support any work of the Ethics Board to extend the application of professional skepticism.

We do consider the current term as defined is appropriate for its current use.

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, could you please provide an alternative definition.

We do support retaining the current term as defined for its current use in the audit of financial statements and reviews and other assurance engagements.

As we do not support any work of the ethics board to extend the application of professional skepticism, we do not support:

- a. a new definition along the lines set out in paragraph 19; or
- b. the development of an alternative definition.

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 behaviors to be exercised by all professional accountants?

No.

We consider the current term is appropriate for its current use. As we do not support any work of the ethics board to extend the application of professional skepticism we do not support an alternative term. We consider the five fundamental principles as expressed in the Code (subject to NOCLAR) are appropriate to achieving the objective of the Code that the professional accountant’s responsibility is to act in the public interest.

Question 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 acknowledge that there is not necessarily a shared view among stakeholders including professional accountants as to what is expected of professional accountants. To help address this expectation gap, we encourage the Ethics Board to undertake a body of work that emphasises communication to and education of professional accountants and other stakeholders (including those charged with the governance of entities, clients, lenders and shareholders).

Question 9

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

We do not support any work of the Ethics Board to extend the application of professional skepticism.

We think the outcome would be:

- a dilution in the existing construct of professional skepticism and its application to auditors; and
- unintended negative consequences for the quality of financial reporting.

We do consider the current term as defined is appropriate for its current use.

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.

No.

We do not support the proposition to include additional application or other material. We believe the Code appropriately articulates expectations about behaviour as they apply to all professional accountants.

If you have any queries on our comments, please contact Dr Mark Shying by email at mshying@swin.edu.au.

Yours sincerely,

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