

Meeting: IAASB
Meeting Location: New York
Meeting Dates: December 5–9, 2016

Agenda Item

5

Professional Skepticism

Objectives of Agenda Item

1. The objectives of the agenda item are:
 - (a) To inform the IAASB of the Professional Skepticism Working Group's (PSWG) activities. Minutes of the September 2016 discussion of the IAASB discussion on Professional Skepticism are included below in Appendix A; and
 - (b) To receive an update about the activities of the joint Professional Skepticism Working Group and the short-term proposals to be considered by the IESBA during its December 12–15, 2016 meeting.

Professional Skepticism Working Group

2. The PSWG includes representatives from the IAASB, the IESBA, and the IAESB and is comprised of the following members:
 - Prof. Annette Köhler, WG Chair, IAASB Member (support to WG Chair: Wolfgang Böhm, IAASB Technical Advisor)
 - Charles E. Landes, IAASB Vice Chair
 - Susan Jones, IAASB Technical Advisor
 - Richard Fleck, IESBA Deputy Chair
 - Patricia Mulvaney, IESBA Member
 - Dave Simko, IAESB Member
 - Bernard Agulhas, IAESB Member

Activities since the Last IAASB Discussion

3. Subsequent to the September 2016 IAASB meeting, the joint PSWG held one physical meeting. The Chair of the PSWG held two teleconferences with some IESBA representatives of the PSWG to discuss the content within **Agenda Items 5Ref.1** through **5Ref.1-C**.
4. The Chair will give a presentation to the Board highlighting the discussions of the PSWG since the September 2016 IAASB meeting and its way forward.

IESBA Potential Project Proposal

5. Richard Fleck, PSWG member and IESBA Deputy Chair, will lead a discussion on the short-term proposals to be considered by IESBA during its December 12–15, 2016 meeting.

Materials Presented

Agenda Item 5-A Presentation – Professional Skepticism

IESBA materials for reference:

Agenda Item 5Ref.1 IESBA Professional Skepticism Cover

Agenda Item 5Ref.1-A IESBA Professional Skepticism Issues and IESBA WG Proposals

Agenda Item 5Ref.1-B IESBA Professional Skepticism Proposed Text

Agenda Item 5Ref.1-C IESBA Professional Skepticism Project Proposal

Matter for IAASB Consideration

1. The IAASB is asked to consider the issues raised during the presentation (**Agenda Item 5-A**) and provide reactions thereto.
2. The IAASB is asked to provide views on whether there are any matters that should be raised by IESBA on consultation through its potential exposure draft.

Minutes – IAASB September 2016 Meeting¹

Prof. Köhler introduced the topic by summarizing the key areas of feedback from the responses to the ITC, discussed in detail in **Agenda Item 8-A**, highlighting:

- Overall strong support for the joint coordination by the IAASB, International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB);
- The analysis of impediments to the exercise of professional skepticism in **Agenda Item 8-B**;
- Mixed views over whether the definition of professional skepticism within ISA 200 needs to be changed or whether the IAASB could instead be more clear how it expects professional skepticism to be demonstrated; and
- A strong link between professional skepticism and other current projects of the IAASB.

Mr. Richard Fleck (IESBA Deputy Chair and Professional Skepticism Working Group (PSWG) member) summarized the feedback received by IESBA stakeholders on the topic of professional skepticism, noting that the feedback has come from responses to the ITC as well as from other sources, such as the March 2016 joint IAASB/IESBA CAG meeting (e.g., the interactions of the concept of professional skepticism and moral courage).

Prof. Köhler summarized the status of the IAESB discussions on the topic of professional skepticism which have been informed by responses to its Consultation Paper (CP),² responses to the IAASB's ITC, and the work of its Professional Skepticism Task Force (IAESB Task Force). Based on this feedback, the IAESB Task Force is in the process of considering whether a potential separate behavioral competence category should be added to the education standards. The IAESB CAG and IAESB will consider this information at their meetings in September 2016 and November 2016, respectively.

CAG Representatives offered the following feedback at the September 2016 joint IAASB/IESBA CAG meeting:

- Support for exploring issues related to evidence and documentation, but some concern about timing and the resources needed to do so and whether work on ISA 200 may also be needed;
- General support for seeking to describe the linkage between PS and the fundamental principles and independence in the IESBA *Code of Ethics for Professional Accountants* (IESBA Code);
- Mixed views as to whether “professional skepticism” should apply to all professional accountants (PAs) and the need to consider the consequences of doing so and not dilute what it means for audits and assurance engagements. Agreement that further dialogue, especially with professional accountants in business, should be sought on the topic;
- Mixed views about moving towards an attitude of presumptive doubt due to concerns over the need to guide auditors about when enough evidence has been obtained;
- Support for a holistic approach to revising the ISAs to include the concept of professional skepticism and strengthen auditor compliance with the fundamental principles of the IESBA Code

¹ These draft minutes are still subject to IAASB review and may be subject to further change.

² December 2015 Consultation Paper, *Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities*.

(consider starting with the definition of professional skepticism in ISA 200), caution against making piecemeal changes; and

- General acknowledgment of the role for others and specific mention of how education may play a role in enhancing auditor behavior.

PRELIMINARY RECOMMENDATIONS OF THE PSWG

Prof. Köhler presented the preliminary recommendations of the PSWG on the actions that could be taken by the three standard-setting boards (SSBs), individually and in coordination, to enhance the application of professional skepticism.

INFORMATION-GATHERING RELATED TO A NEW PROJECT

The Board was generally supportive to commence information gathering related to a potential new project on Audit Evidence.³ Board members also recognized the link to audit documentation in ISA 230, but noted that the exercise of professional skepticism would not be improved by simply requiring professional skepticism to be documented. There was also caution from some members against “sprinkling” the term professional skepticism throughout the auditing standards and it was noted that any enhancements should focus on providing practical guidance to practitioners on how to demonstrate the exercise of professional skepticism. One member suggested that perhaps the “right” starting point would be to evaluate whether the current definition of professional skepticism within ISA 200 could be enhanced. The PSWG was also encouraged to continue coordinating with the other current projects of the Board, in particular ISA 540, but also the ISA 315 (Revised), Quality Control, and Group Audits on strengthening professional skepticism within the relevant standards.

Board members also expressed support for other activities outside of standard-setting that could promote the application of professional skepticism, for example, a thought-piece or feedback statement that provides the public with insight as to how the three SSBs view the concept of professional skepticism, the planned actions each Board intends to take, and how these various actions are coordinated between the SSBs.

IESBA PROFESSIONAL SKEPTICISM PRELIMINARY WORDING

The IAASB discussed the preliminary wording prepared by IESBA representatives as presented in **Agenda Item 8-C**, and provided input on the implications and possible unintended consequences of extending the concept of professional skepticism beyond audit and assurance engagements. Feedback provided to the IESBA included the following observations:

- That the IESBA should understand and consider the potential unintended consequences of extending the concept to all PAs prior to standard-setting.
- Professional skepticism is enhanced when you apply the fundamental principles, not the other way around.
- Professional skepticism is defined specifically in the context of audit and assurance engagements and therefore is intended to be applied to only those engagements. There is concern that by potentially attempting to extend the definition to all PAs, and therefore to all types of engagements,

³ The scope of a project on audit evidence is still to be determined by the IAASB. Further consideration as to when activities on this will commence will form part of the discussions on the IAASB’s Work Plan for 2017–2018 at the December 2016 IAASB meeting.

it could result in an unintended consequence that the term could be “watered down” when applied by auditors.

- Professional skepticism is linked to the concept of audit evidence, an unintended consequence of extending this concept to all PAs could potentially cause an expectation that the auditor should behave just as any other professional accountant, or that professional accountants should apply professional skepticism like auditors and assurance practitioners, and this would not be in the public interest.
- Although the IAASB cannot monopolize the term professional skepticism, the IESBA is urged to continue to have more discussions on this topic before taking action.

Mr. Kristian Koktvedgaard (IESBA CAG Chair) commented that although there wasn't a detailed discussion at the CAG on the specific wording within the Strawman, one CAG Representative stated that the document did outline the major issues. He also added that a few CAG Representatives, representing the preparer or those charged with governance stakeholder groups, expressed support for a broader scope of the concept of professional skepticism to all PAs, but had also cautioned the IESBA in doing so.

FUNDAMENTAL CHANGES TO THE CONCEPT/DEFINITION OF PROFESSIONAL SKEPTICISM IN THE ISAS

Some Board members challenged whether a potential fundamental change to the concept of professional skepticism is in fact a “longer-term” issue as described in the meeting materials and questioned whether the work done on this issue can be started in the near-term. Prof Köhler agreed with this view and clarified that although the PSWG believes that the issue will require longer-term consideration, it intends to begin information-gathering and perform the necessary analyses of potential unintended consequences in the short-term. The Board supported performing additional analyses of the implications of potential fundamental changes to the definition of professional skepticism such as: incorporating a concept of different “levels” of professional skepticism, shifting towards a more doubting attitude or presumptive doubt, and a potential requirement to seek-out contradictory evidence. The Board believed that additional analyses of implications and unintended consequences, in order to determine whether these actions might enhance the exercise of professional skepticism by practitioners, would be critical.

WAY FORWARD

To progress this topic, the PSWG will:

- Continue to support the current IAASB projects on ISA 540, ISA 315 (Revised), Quality Control and Group Audits;
- Commence information-gathering and analysis on issues in relation to fundamental changes to the concept or definition of professional skepticism;
- Commence information-gathering on a project related to Audit Evidence; and
- Explore the concept of a thought-piece, feedback statement or other brief publication to give prominence to the work of the PSWG.