Professional Skepticism

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IAASB Meeting
June 21, 2016
Overview

• Update the Board on current status of PSWG work
• General Language Issues
• Our approach: A professional skepticism matrix
• Professional Skepticism in the Audit
• Overall Considerations
• Way Forward
Update Board on Current PSWG Work (1)

• PSWG IAASB Subgroup:
  – Support ISA 540 WG in its incorporation of PS into ISA 540; Developed Agenda Paper and Matrix with Analysis of potential input to ISA 540
  – Support for coordinated approach of SSB to PS: Supplemental Reference Material for IESBA Information „Current Treatment of the Concept of Professional Skepticism in IAASB and IAESB Standards, the IESBA Code, and the IAASB ITC on Audit Quality“

• IAESB: deferred discussion on PS pending the results of the ITC
IESBA: members are asked for initial views on:

- The approach to be taken on issues relating to the topic of professional skepticism including the approach to be taken to the meaning of professional skepticism and its application.
- Whether, and how the concept of professional skepticism should be addressed in the proposed restructured Code.
- Depending on the approach to be taken on the definition of professional skepticism, whether to undertake an exercise to determine whether there are areas within the IESBA Code where there would be benefit in elaborating on, or emphasizing or clarifying the role of professional skepticism.

- Agenda Paper for June meeting proposes potential changes to definition of PS to broaden it beyond assurance engagements.
High-Level Analysis and Summary of Responses to ITC on PS (1)

- Broad support for the approach taken so far
- No „surprises“
- Coordination between SBB is key
- Mixed views on specific issues
- Better explanation and clarification of what PS actually looks like
- Explore fundamental changes

More details in ITC Feedback/Outreach from Enhancement Group
Objectives of discussion

Present the PSWG-IAASB Subgroup recommendations to the ISA 540 TF on potential ways to emphasize professional skepticism in making professional judgments.
General Language Issues (1)

- ISA 540 TF asked the PSWG IAASB Subgroup to address the issue of language in relation to the application of PS
  - In particular, in relation to „contradictory“ vs. „inconsistent“
  - Whether there were any other language issues

- In response, the PSWG IAASB Subgroup addressed the following language issues:
  - „contradictory“ vs. „inconsistent“
  - „challenging“ vs. „questioning“
  - In addressing this issue, the PSWG IAASB Subgroup was guided by the need to enhance the application of PS
General Language Issues (2)

• “Inconsistent” vs “Contradictory” Evidence
  − “Contradictory” suggests that evidence is diametrically opposed, whereas “inconsistent“ suggests disharmony or disagreement
  − Hence, use of the term “contradicts” appears to be unnecessarily narrow for the consideration of evidence using professional skepticism

• Challenge” vs “Question”
  − The word “challenge” connotes greater defiance or disputation, whereas “question” connotes an open mindset or the suspension of judgment
  − The definition of professional skepticism refers to “an attitude that includes a questioning mind” and is therefore not necessarily restricted to needing to challenge management assertions directly in all cases by obtaining evidence from management
  − Hence, the use of the term “challenge“ appears to be unnecessarily narrow for the consideration of evidence using professional skepticism
Recommendations to the ISA 540 TF

The use of broader terms would enhance the application of PS; therefore

1. Consider whether the term “contradicts” ought to be replaced with “inconsistent” in the revision of ISA 540.

2. Consider whether the term “challenge” or “question” is more appropriate for the revision of ISA 540.

Matters for IAASB Consideration

1. Have we addressed the most relevant topics for enhancing professional skepticism with respect to language or do we need to address other topics?

2. Do you agree with the recommendations made to the ISA 540 TF?
Our approach: A professional skepticism matrix

• ISA 540 WG asked PSWG IAASB Subgroup for input on how to apply PS in ISA 540

• The Subgroup considered whether and how the more general descriptions of professional skepticism could be augmented throughout the ISAs to support the application of professional skepticism, with specific attention to auditing accounting estimates, by developing a Matrix. The Matrix identifies the critical elements of professional skepticism within each phase of the audit:
  - Risk Assessment
  - The Auditor’s Response to Assessed Risks (Design of procedures)
  - The Auditor’s Response to Assessed Risks (Performance of procedures)
  - Forming an Opinion and Drawing Audit Conclusions
Matters for IAASB Consideration

3. Have we addressed the most relevant topics for enhancing professional skepticism at the risk assessment stage or do we need to address other topics?

4. Do you agree with the recommendations made to the ISA 540 TF?
Matters for IAASB Consideration

5. Have we addressed the most relevant topics for enhancing professional skepticism at the risk response-design stage or do we need to address other topics?

6. Do you agree with the recommendations made to the ISA 540 TF?
Matters for IAASB Consideration

7. Have we addressed the most relevant topics for enhancing professional skepticism at the risk response-designing procedures stage or do we need to address other topics?

8. Do you agree with the recommendations made to the ISA 540 TF?
Matters for IAASB Consideration

9. Have we addressed the most relevant topics for enhancing professional skepticism at the forming a conclusion stage or do we need to address other topics?

10. Do you agree with the recommendations made to the ISA 540 TF?
Overall Considerations

The Matrix helped the PSWB-IAASB Subgroup to develop and structure its recommendations to the ISA 540 TF. In a similar way the Matrix could be of help in addressing professional skepticism in other IAASB projects (e.g., ISA 315 (Revised), Quality Control, Data Analytics).

Matters for IAASB Consideration

11. Do you agree with the approach taken to develop a matrix that addresses professional skepticism at the different stages of the audit process?

12. Would the Matrix in Agenda Item 2-B be useful to other standard setting projects if it was tailored?
Way Forward

1. PS IAASB Subgroup: Provide input to other IAASB projects applying concepts in the Matrix and the 540 learnings to other standard-setting projects
2. Prepare thorough analysis of responses in ITC to PS
3. Discuss PS definition
4. Discuss joint „thought piece“ that explains current PS concept and SBB approaches
## Forward-Looking Timetable

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<tr>
<th>Timing</th>
<th>IAASB</th>
<th>IESBA</th>
<th>IAESB</th>
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<tbody>
<tr>
<td>June 2016</td>
<td>IAASB meeting: recommendations to ISA 540 TF on ways to emphasize professional skepticism within ISA 540.</td>
<td>Initial IESBA discussion about the concept of professional skepticism.</td>
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<td>Sept 2016</td>
<td>IAASB meeting: analysis of the responses to the ITC and recommendations</td>
<td>IESBA meeting: analysis of the responses to the IAASB’s ITC and recommendations</td>
<td>IAESB CAG meeting: analysis of the responses to the IAESB’s CP and IAASB’s ITC and recommendations</td>
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<td>Nov 2016</td>
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<td>IAESB meeting: analysis of the responses to the IAESB’s CP and IAASB’s ITC and recommendations</td>
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<td>Dec 2016</td>
<td>IAASB meeting to review and consider a draft of an ITC Feedback Statement.</td>
<td>TBD</td>
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