The IAASB’s developments that we welcome in ED-315

We acknowledge that the IAASB has recognised the central role that professional skepticism plays in an audit. We welcome that ED-315 contains several key provisions that are intended to reinforce the auditor’s exercise of professional skepticism, such as placing the focus on a more thorough and robust understanding of the entity and its environment as well as its applicable financial reporting framework. This provides a good foundation for promoting the exercise of professional skepticism throughout the audit process.

In this regard, we also welcome that in ED-315,
- paragraphs 22 and A44 implicitly require the engagement partner and other key engagement team members to apply professional skepticism during engagement team discussions about the applicable financial reporting framework;
- paragraph A42 highlights how engagement team members can learn from more experienced colleagues; and
- paragraphs A19, A44 and A135 state that contradictory evidence may be obtained as part of the auditor’s risk assessment process.

Recommendations in general and for paragraphs 17 and 18 of ED-315

We would recommend that the “requirements” section of the standard explicitly recognize the need for the auditor to exercise professional skepticism. The Explanatory Memorandum highlights six paragraphs within the application material that deal with professional skepticism. However, there is no explicit reference to professional skepticism within the requirements themselves. Adding narrative to the requirements would serve to reinforce the importance of professional skepticism and establish a standard that more strongly promotes audit quality, and would also be consistent with ISA 540 (Revised), which includes narrative in the standard. For example, paragraph 34 of ISA 540 (Revised) highlights that, when evaluating information, all information corroborative or contradictory should be taken into account.

A specific section in the “requirements” section of ED-315 headed “professional skepticism”, similar to ISA 200, would give the issue even more prominence.

Specifically, we believe paragraphs 17 and 18 of ED-315 (including the related application material) should be supplemented with additional wording that supports the appropriate exercise of professional skepticism while performing procedures to understand an entity and its environment, its financial reporting framework, and its system of internal control as a basis for identifying and assessing the risks of material misstatement.

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1 Exposure Draft International Standard on Auditing 315, Identifying and Assessing Risks of Material Misstatement
2 This report presents respondents’ comments to question 4 of ED–315, and specifically on whether the proposals support the appropriate exercise of professional skepticism throughout the risk identification process. Note that the 2nd part of question 4 also requested feedback on the reference to ‘sufficient appropriate audit evidence’ in paragraph 17 of ED–315. Specific comments to this question are excluded from this report, as it was separately presented to the Board in March 2019 (NVivo report 10A).
Documentation

We acknowledge that the IAASB has expanded the specific requirements in ED-315 on documentation. However, ED-315 should contain an explicit requirement for the documentation of the auditor’s application of professional skepticism in paragraph 54 (“Documentation”) rather than relying on the reference to overall documentation requirements in accordance with ISA 230.

Information received from management

The proposals generally focus on obtaining and considering “contradictory information” (e.g. as in paragraphs A19, A42 and A43). However, the Committee recommends making ED-315 more emphatic by stating in the “requirements” section that auditors should critically assess and challenge the information they receive from management. Further details could be included within the application material (e.g. in paragraphs A21–A23 (“inquiries of management”)) to emphasize that when inquiring of management, auditors should be prepared to critically assess and challenge the information they receive.

Judgments made by management

We recommend that ED-315 be revised to focus the auditor’s attention on significant judgments made by management in its preparation of financial statements because such judgments are very likely to affect the auditor’s assessment of the risks of material misstatement and may represent significant risks. Therefore, the auditor’s consideration of management’s significant judgments should be part of the risk assessment procedures and related activities (and hence within the scope of ISA 315 (Revised)). The application material refers only to management bias (e.g. in paragraphs A44 and A52).

Information used since prior years

Paragraphs A38 and A40 recognize that the auditor may have information from other engagements or prior year audits, which can inform the auditor’s understanding and assessment of the entity. Paragraph A40 includes a warning that the auditor should ensure that the information derived from prior year audits remains relevant and reliable. However, paragraph A38 does not have a similar warning in respect of information from other engagements. Paragraphs A38 and A40 relate to different sources of information, to which the same concerns apply. The text in paragraph A38 should have a degree of commonality with paragraph A40, and should prompt the auditor to consider whether information from other engagements is relevant to the audit.

05. IAIS

While we welcome the increased emphasis on professional skepticism in the draft standard, we think the requirements could be further enhanced. Professional skepticism as a concept does not have great prominence within the overall standard, notwithstanding the sentence in paragraph 2 and the additional application material, yet is a key requirement for auditors. At the planning stage, when identifying potential areas of material misstatement, the auditors should not be bound by prejudice or unconscious bias, and should be prepared to challenge and critically evaluate all the information.

The consultation document identifies paragraphs in the application material to the effect that the auditor should obtain and consider contradictory information. The recent revisions to ISA 540 included some of this language in the standard itself - see for example para 34 of ISA 540. Adding narrative to the standard would reinforce professional skepticism and establish a stronger standard against which to judge the audit. The standards should also be consistent in form and presentation.

There is also little to suggest that the auditor should critically assess and challenge the information they receive from management. More language to this effect in the application material (e.g. in A21) would also reinforce professional skepticism.
06. IFIAR

As audit regulators we continue to note instances where professional skepticism should be improved. The exposure draft provides limited coverage of the importance of the auditor exercising professional skepticism.

We recommend additional consideration of where the coverage of professional skepticism can be enhanced (see ISA 240 paragraphs 12-14). This could include additional material in the “Risk assessment and Related Activities” section.

07. IOSCO

While the Board intends for ISA 315 (Revised) to respond to calls for more consistent and high quality application of professional skepticism, it is not entirely clear to us in what way the Paper contributes to that objective.

We recognize that Appendix 1 to the Explanatory Memorandum highlights six paragraphs in the Application and Other Explanatory Material where professional skepticism has been addressed. We believe the Board should emphasize the importance of professional skepticism throughout the body of the standard in addition to the Application and Other Explanatory Material.

08. IRBA

The proposals do support the appropriate exercise of professional skepticism throughout the risk identification and assessment process as ED-315 contains granular requirements. Paragraph A19 of ED-315 appropriately reinforces the application of professional skepticism by giving examples of various sources that may provide potentially contradictory information in identifying and assessing the risks of material misstatement.

This support also extends to Paragraph A42 of ED-315, where through engagement team discussions, inconsistent information could come to the fore based on each engagement team member’s own understanding of the nature and circumstances of the entity.

09. UK Financial Reporting Council

We agree with the approach being taken by the IAASB in ED-315 to emphasize the importance of professional skepticism in the introduction to standard, and to establish application material that is intended to drive skeptical behavior. In particular, we support doing so by highlighting specific examples where the engagement team have an opportunity to exercise professional skepticism in the identification and assessment of risks. Simply inserting in the requirements further reminders to “apply professional skepticism” would not be sufficient in supporting behavioral change.

11. Australian A&A Standards Board

The AUASB agrees that the application of professional skepticism is reinforced throughout the risk identification and assessment process in ED 315. Specifically we agree with the principles-based approach and reference to the concept of professional skepticism in the introductory paragraphs and application material, rather than prescriptive requirements.

Based on the findings of academic research (references available upon request if needed) we recommend the following enhancements to ED 315 in order to encourage higher levels of professional skepticism:

- Paragraph 22 - the engagement partner is to use professional judgment to decide the format of instructions provided, and who will participate, when conducting the discussion.
- Paragraph A45 - be expanded to note that the engagement partner should be cognizant, when communicating with those not included in the discussion, that what they communicate, and how
they communicate, might lead to auditor bias which can, depending on the circumstances, both positively and negatively impact the level of professional skepticism being exercised.

- Paragraph A19 include reference to broad sources of information (that may include but not be limited to the points noted) so as to avoid consciously and/or subconsciously narrowing the breadth of information search.
- Paragraph A42 include the other benefits identified from research associated with engagement team discussion, including helping auditors to be open to new information, and different interpretations of the information, and to limit the possibility of prematurely forming a belief.
- We also recommend that A44 be amended to remove the text “may also have an opportunity to”, to reinforce that the engagement team exercise professional skepticism while performing risk assessment procedures.

12. Canadian AASB
Yes, the proposals sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process. Participants of the field testing indicated that it was not only the six specific references to professional skepticism (highlighted in Appendix 1 of the explanatory memo) that may drive the appropriate exercise of professional skepticism. The robustness of the standard taken as a whole will also serve to improve the exercise of professional skepticism.

13. CNCC-CSOEC
The exercise of professional skepticism, as well as the requirement to assess and obtain sufficient and appropriate audit evidence, are key underlying concepts in auditing.

The table included on pages 34/35 of appendix 1 to the explanatory memorandum to ED-315 is particularly useful.

14. Hong Kong Institute of CPAs
Principles-based auditing standards provide a framework without the need for detailed rules. This approach also provides the basis of professional judgment. While one of the objectives of ED-315 is to reinforce professional skepticism, we are concerned that the lengthy application material may give an impression that applying the relevant, if not all, requirements and application material in ED-315 is equivalent to the exercise of professional skepticism.

15. IDW
In our view, since professional skepticism is an attitude that resides within individual auditors, we believe that the character, education and training of auditors is more important than auditing standards for the appropriate exercise of professional skepticism. However, although standards can facilitate the appropriate exercise of professional skepticism, we are not convinced that adding more requirements and application material necessarily improves professional skepticism. While no particular requirement or guidance that we have seen in the draft would not facilitate professional skepticism, the fact that the standard is so difficult to understand for practitioners may actually impair the exercise of professional skepticism.

16. Japanese Institute of Certified Public Accountants
Paragraph A14

We propose deleting it. It is not particularly useful guidance and the first bullet (reference to ISA 240 and ISA 540) overlaps with paragraph A13.

[All other comments relate to ‘sufficient and appropriate audit evidence’]
17. Malaysian Institute of Accountants

The proposals sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process through the performance of risk assessment procedures.

18. Nederlandse Beroepsorganisatie van Accountants

Although the term professional skepticism is mentioned a few times, we do not consider this appropriate. It is not clear what needs to be done, only that contradictory information needs to be taken into account.

19. National Board of Accountants (Tanzania)

We agree with the proposals and thus they sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process,

20. NZAASB

[All comments related to ‘sufficient and appropriate audit evidence’]

21. Altaf Noor Ali Chartered Accountants

Yes. We support exercise of professional skepticism throughout the audit and obtaining sufficient appropriate audit evidence. We welcome the clarification on professional skepticism.

22. BDO International

Yes, on balance we are of the view that the IAASB has adopted an appropriate approach to dealing with professional skepticism. There is always a danger that over-use of the term professional skepticism (for example if it were to appear in each Requirement and throughout the Application and Other Explanatory Materials) would have a negative impact on auditor behavior (perhaps leading them to become desensitised to the need to maintain professional skepticism).

We are supportive of the IAASB’s emphasis on recognizing the central role that professional skepticism plays in an audit and specifically including this as a concept within the introductory paragraphs, the importance attached to the thorough and robust understanding of the entity, its environment and applicable financial reporting framework and highlighting the benefits of exercising professional skepticism during the engagement team discussion (A42).

Specifically we support references and examples made in the Application and Other Explanatory Material to the potential for information to be potentially contradictory (A19) which is also reinforced through further consideration by the engagement team (A44). We are particularly supportive of the notion that individuals and engagement teams need to share their understanding of the entity and continue to use their professional skepticism in order to help identify areas where material misstatements are more like to arise (A47).

24. Crowe International

The proposals do sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process. The table in Appendix 1 in the Explanatory Memorandum is helpful, and could be developed into support material to help auditors with their implementation of the standard.

25. Deloitte

DTTL believes that the more robust requirements and appropriately detailed guidance for the risk assessment process in ED-315 provides for a better basis to develop effective audit responses. This emphasis on risk assessment in turn reinforces the underlying concept of being professionally skeptical.
26. EY Global Limited

Yes, we believe that the proposals generally support the appropriate exercise of professional skepticism, and that, in particular, the references to consideration of management bias are helpful.

However, we draw attention to the wording of paragraph A44 (i.e., ‘the engagement team may also have an opportunity to exercise professional skepticism while performing risk assessment procedures’). The implication is that the auditor is ‘looking for opportunities’ to exercise professional skepticism, and we suggest re-wording this to read ‘...the engagement team exercises professional skepticism …’, given that the engagement team is expected to exercise professional skepticism throughout the audit, rather than looking for discrete opportunities to do so.

27. Grant Thornton

We note that the Explanatory Memorandum indicates that professional skepticism has been encouraged in the following ways:

- The introductory paragraphs to ED 315 emphasize the importance of exercising professional skepticism.
- Six application material paragraphs include references to professional skepticism and its role in risk assessment.
- Guidance has been provided around contradictory information.

We are supportive of the inclusion of references in the application material for the auditor’s consideration of contradictory information. We are of the view that these paragraphs will serve as a useful reminder to auditors in their performance of an audit engagement.

However, we are also of the view that the enhancements in general support better application of professional judgment in the performance of an audit engagement, rather than the appropriate application of professional skepticism. The promotion of the appropriate application of professional skepticism would be better facilitated by ED 315 making a better connection to ISA 240 and in particular, the requirements relating to risk assessment procedures.

We also note that the International Ethics Standards Board forAccountants (IESBA) recently issued a Consultation Paper: Professional Skepticism – Meeting Public Expectations. We would request that the IAASB consider the responses to this consultation in finalizing the revisions to ED 315.

28. KPMG IFRG Limited

Overall we believe the proposals are helpful in supporting the appropriate exercise of professional skepticism throughout the risk identification and assessment process. In particular, we agree with the principles-based approach and reference to the concept of professional skepticism in an overarching fashion in the introductory paragraphs, rather than the inclusion of several, individually prescriptive requirements throughout the standard. We believe this approach is aligned to the current description of professional skepticism as being a mindset/ fundamental behavior of an auditor.

29. MNP LLP

In practice, the application of professional skepticism by engagement teams throughout an audit has proven to be difficult. We think that the added robustness of ED-315 will be the real driver behind the exercise of professional skepticism. More specifically, the stand-back requirement will force auditors to take a step back and assess whether the risk assessment results make sense in light of the in-depth understanding of the entity and its environment. In addition, the risk assessment procedures are revised to be more evidence based rather than inquiry alone. As such, we believe that it is the requirements in ED-315 that will result in
the exercise of professional skepticism rather than the professional skepticism-specific guidance added to ED-315.

30. PwC

Reference 1:
The specificity of the revised requirements on understanding the entity, its environment and the financial reporting framework are useful in focusing the auditor on what is important to understand in informing their risk assessment and will, we believe, aid professional skepticism. However, the overall complexity of the standard could inadvertently undermine the intended reinforcement of the importance of professional skepticism due to auditors focusing on seeking to understand and comply with the requirements, rather than standing back and applying a questioning mind based on their enhanced understanding.

See also our response to question 6, which includes our views on how the concept of inherent risk factors could be amended, to enhance further professional skepticism.

Reference 2:
Inherent risk factors were introduced as a concept in the recently approved ISA 540 (Revised), and we believe that how this concept was incorporated into that standard will lead to risk assessments that better identify the reasons underlying inherent risk and enable auditors to tailor their responses more appropriately. However, how they have been introduced into the proposed ED is slightly different and we find that it does not work as well as in ISA 540 (Revised).

For example, we find the definition to be confusing by referring to “characteristics of events or conditions”. What matters is the characteristics inherent to a particular class of transactions, account balance or disclosure; not the characteristics of the events or conditions.

In making a proper risk assessment, we believe it would be more helpful to distinguish between external factors that influence an entity’s risks from internal company-specific risk factors, rather than combining these under a single construct. External factors, events or conditions are not inherent to an item, but are still relevant factors to take into account. In that regard, we recommend adopting an approach similar to the PCAOB’s articulation of internal and external factors. We believe this would bring greater clarity and be more understandable.

We are concerned about the inclusion of susceptibility to misstatement due to management bias or fraud as a discrete inherent risk factor in ISA 315 (Revised) given the interaction between ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of the Financial Statements (ISA 240) and ISA 315 (Revised) that exists today. Paragraph 25 of ISA 240 already requires the auditor to identify and assess the risks of material misstatement due to fraud at the financial statement level and at the assertion level for classes or transactions, account balances and disclosures. ISA 240 also sets out robust fraud risk factors for the auditor to evaluate. Inclusion as a separate inherent risk factor in ISA 315 (Revised) may lead to confusion between the two standards, or in how the two standards interact. We also note that susceptibility to fraud may also arise as a result of a weak control environment or deficiencies in internal control. Therefore, we do not believe this can be thought of in the context of inherent risk only, in isolation from understanding the entity’s system of internal control.

In removing the risk factor, to maintain a focus on the importance of considering risks arising from fraud, we suggest the standard could clarify the relationship between ISA 240 and ISA 315 (Revised), by referring to the requirements and guidance in ISA 240 as additional application material in paragraph A6 of the Exposure Draft. Alternatively, if considered necessary, essential application material could be incorporated into paragraph 45 of ISA 315 (Revised) (or our equivalent requirement, paragraph 39) to remind auditors that
the auditor’s risk assessment includes the auditor’s assessment of the risk of material misstatement due to fraud in accordance with paragraph 25 of ISA 240.

31. RSM International

Whilst we appreciate the references in paragraphs 26-27 and Appendix 1 to professional skepticism, we are not convinced that professional skepticism will be enhanced by the standard as it is more of a behavioral issue and an attitude of mind.

32. Office of the Auditor-General of Alberta

Further improvements could be made to support the use of professional skepticism, such as paragraph A5 under susceptibility to misstatement due to management bias or fraud, the responsibility and bias of those charged with governance is not incorporated. Those charged with governance may have bias that should also be considered as part of the auditor’s understanding of the control environment.

Conceptually there is a trade-off within the exposure draft, between consistency and skepticism. The executive summary of the ED states “the objective . . . to drive auditor’s to perform consistent and effective identification and assessment of the risks of material misstatement.” The exposure draft would increase consistency in some areas, such as the assessment of control risk – the proposal states unless control risk is tested, control risk is high. This increases consistency and is clear in the proposal, however it has removed all professional judgement from the auditor to rate control risk other than high based on the information the auditor has gained through his or her control assessment procedures, such as review of process documents, walkthroughs and overall entity level controls.

In the interest of modernizing the standard and promoting skepticism, application guidance could direct the auditor to perform procedures to monitor social media for references to the entity.

We note that paragraph 21 may reduce the auditor’s skepticism. Paragraph 21 allows the auditor to use information obtained in previous audits. This may reduce risk assessment effectiveness if auditors argue that the concept is similar to ISA 330 “use of audit evidence obtained in prior audits” and argue that risk assessment procedures can also similarly be rotated across three years. Instead, we suggest a skeptical auditor would perform risk assessments each year “fresh” and rely very little on prior years’ assessments.

While the existing wording in ISA 315 did not include reliable, it may have been a stronger requirement, because effectively the auditor had to determine for all prior information being relied upon whether any changes had occurred to make the information not relevant. The proposed language is simply “to evaluate whether such information remains relevant and reliable.”

33. Office of the Auditor-General of Canada

Yes, we believe professional skepticism is adequately addressed.

35. US Government Accountability Office

We believe that the proposals sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and assessment process, and we support the proposed change for the auditor to obtain “sufficient appropriate audit evidence” to provide the basis for identifying and assessing risks of material misstatement. We believe that this clarification will further encourage auditors to exercise professional skepticism.

However, we do have two specific points for the IAASB to consider:

1. We believe that paragraph A22 could benefit from incorporating text similar to that in paragraph 18(a), specifying that inquiries should be made of individuals “within the entity who in the auditor’s judgment may have information that is likely to assist in identifying risk of material misstatement.”
2. We also suggest that the IAASB reword the first sentence of paragraph A44, which seems to suggest that the engagement team has the option but is not required to exercise professional skepticism while performing risk assessment procedures. We believe that the explanation of this paragraph in appendix 1 of the explanatory memo is clearer; it notes that the engagement team has the opportunity to exercise professional skepticism during the engagement team discussion.

36. Swedish National Audit Office

Yes, we believe that the proposal sufficiently supports the exercise of professional skepticism throughout the risk identification and assessment process.

38. ACCA-CAANZ

We are of the opinion that professional skepticism is ‘a state of mind’ that cannot be instilled by referring to the term more frequently in standards. Regulators usually focus on the evidence documented around professional skepticism and ED-315 does not have a lot more information around documentation than the extant standard.

We noted some areas where the Application and Explanatory Material could make a clearer connection between higher risks of management bias and fraud and the need for heightened professional skepticism, such as in paragraphs A70-A78 and A83-A88. Other areas where the Application Material could refer specifically to professional skepticism include:

- In paragraphs A41-A45 (discussion among the engagement team), the guidance could warn of the danger of groupthink for the exercise of professional skepticism, and could articulate some ways to mitigate it.
- The guidance could be more explicit about anchoring bias, for instance in paragraph A47.

39. Accountancy Europe

Exercising professional skepticism throughout the risk identification and assessment process is instrumental at any stage of the audit. The risk identification and assessment process is an iterative process carried out through the understanding of the entity, its external environment and its internal control system.

It is vital for the auditor to exercise professional skepticism, especially in the risk identification and assessment process of the entity’s internal control system. While the Explanatory Memorandum highlights the importance of exercising professional skepticism throughout the risk identification and assessment process, we find that this importance is not properly reflected within the standard itself.

The table included on pages 34/35 of the Appendix 1 to the Explanatory Memorandum to ED-315 is particularly useful and could be included in an appendix to the standard.

40. AICPA

[All comments related to ‘sufficient and appropriate audit evidence’]

41. Center for Audit Quality

In the CAQ’s 2016 comment letter to the IAASB, we recommended that as the IAASB contemplates revisions to existing standards or the development of new standards, they consider whether to include application material within the standard that would help guide the auditor’s appropriate application of professional skepticism. The changes proposed in the Exposure Draft align with that recommendation.
42. Chartered Institute of Public Finance & Accountancy
CIPFA is content with this approach. We have supported the Board’s various proposals for signposting the need for appropriate skepticism in ISAs. However, we do not consider that there were significant deficiencies in the body of ISAs before these proposals, nor do we consider that the ISAs are the main drivers for auditor improvement.

43. CPA Australia
Yes, the proposals have adequately incorporated the manner by which professional skepticism can be exercised in the risk assessment.

44. EFAA
We agree that the proposals encourage exercise of professional skepticism throughout the risk identification and assessment process. IAASB standards in isolation, however, will unlikely significantly enhance professional skepticism. Professional skepticism is largely determined by the education and mindset of the auditor. We refer you to our response to the IESBA Consultation Paper, Professional Skepticism – Meeting Public Expectations.

45. Finnish Association of Authorised Public Accountants
Professional skepticism is incorporated in all audits and is a matter of professional judgement. No specific guidance is needed in ISA 315 regarding professional skepticism.

46. Fed of Prof Council of Economic Sciences (Argentina)
We consider that the central role that professional skepticism plays in an audit is recognized and that ED-315 contains several key provisions that are designed to improve the auditor's professional skepticism. Emphasizing that the understanding of the entity and its environment, and the applicable financial reporting framework provides a basis for professional skepticism during the remainder of the audit.

47. FSR Danske Revisorer (Denmark)
We do not believe that the proposal supports the appropriate exercise of professional skepticism as the standard does not state when professional skepticism is required to be exercised. The application material should help support how the professional skepticism should be exercised.

Furthermore, we believe there is a risk that the overall complexity of the standard may undermine the intended reinforcement of the importance of professional skepticism. This is due to the increased focus on specific requirements, rather than standing back and applying a questioning mindset, based on an understanding of the entity, the accounting framework and control environment.

48. Interamerican accounting association (South America)
No. We understand that the proposals do not sufficiently support the proper exercise of professional skepticism. Skepticism is achieved with a wide effective practice in the audit, we understand that the proposals have this intention, but we believe that more illustrative examples that improve the formation of professional skepticism in the auditors of financial statements is lacking. Additionally, the auditor must maintain and exercise his professional skepticism, not only during the whole risk identification and evaluation process, but throughout the entire audit process, from planning to the final issuance of his reports.
49. Instituto dos Auditores Independentes do Brazil

We are of the view that it is an appropriate approach to dealing with professional skepticism and reinforce the importance attached to the robust understanding of the entity.

51. Institute of Chartered Accountants in England and Wales

Our outreach did not elicit any suggestion that the proposals would have a marked effect on the exercise of professional skepticism. The promotion of skepticism is a complex, largely behavioral issue in which auditing standards probably play a relatively minor role and IAASB should be careful not to raise expectations inappropriately in this area. Significantly, few commentators believed that the proposed new stand-back or the existing stand-back in ISA 330 was likely to have much impact: the existing stand-back results in audit work for the sake of it in many cases, and neither the extant nor the proposed stand-back should be necessary if the risk assessment has been performed properly in the first place. We make more detailed observations on this issue in our answer to Q8 below.

52. Institute of Chartered Accountants (Ghana)

Yes the proposals sufficiently support the exercise of professional skepticism throughout the risk identification and assessment process. Looking at the fact that it even introduces automated tools and techniques to assist the process such as visualization techniques which helps to identify more specific areas of possible misstatements. It also requires explicitly from the audit team to exercise professional skepticism when performing risk assessment procedures. The benefits of the engagement team discussion and therefore sharing of experience/views on the entity, obtaining a thorough understanding of the entity/environment and applicable financial reporting framework, communications with the internal audit function and the identification and discussing of inconsistent or contradictory information with the team all go to enhance this skepticism.

53. Institute of Chartered Accountants of Pakistan

We acknowledge that the revised standard reinforces the exercise of professional skepticism throughout the risk assessment and identification process. This reinforcement is expected to further encourage auditors to follow the principle of professional skepticism.

54. Institute of Chartered Accountants of Scotland

With regard to the reference to the appropriate exercise of professional skepticism throughout the risk identification and assessment process, we note that ED-315 currently only includes a reference to that term without any emphasis on the need for the auditor to adopt a skeptical mindset as a behavioral issue. Whilst we acknowledge that it should not be the purpose of a standard to prescribe how professional skepticism should be applied, the emphasis on the need for professional skepticism to be applied throughout the risk identification and assessment process could be stronger.

55. Institute of Chartered Accountants (Zimbabwe)

Yes. In order to deliver due care in an audit, there is need for that critical assessment in gathering audit evidence and a questioning mind. With this is mind, ED-315 has proposed for the emphasizing the importance of exercising professional skepticism in the introductory paragraphs.

57. Institute of Public Accountants

The IPA is of the view that while some additional material in relation to professional skepticism is helpful, that in assessing inherent risk the auditor needs to determine factors giving rise to a “motive to misstate”. The existence of such a motive should link to both inherent risk and professional skepticism.
59. Malaysian Institute of CPAs

Being principle-based, professional judgement is required in applying the various aspects of ED-315 which in turn requires the exercise of professional skepticism.

In this regard, there appears to be sufficient emphasis on the exercise of professional skepticism throughout the risk identification and assessment process which we are supportive of.

61. PAFA

While it is clear to see how the proposals as well the specific reference to obtaining “sufficient appropriate audit evidence” through the performance of risk assessment procedures support and can enhance the exercise of professional skepticism, it is not clear how the clarification will encourage professional skepticism.

62. SAICA

SAICA agrees with the manner in which professional skepticism has been enhanced in the standard.

63. SMPC

We agree that the proposals encourage exercise of professional skepticism throughout the risk identification and assessment process, but IAASB should take care in making claims about the power of IAASB standards to change auditor behavior in this respect.

64. Wirtschaftsprüfer

We believe that the proposals encourage the exercise of professional skepticism throughout the risk identification and assessment process.

Nevertheless professional skepticism depends to a good part on the inner attitude and the mind-set of the auditor. Hence educational work to increase awareness must accompany the revision of extant requirements.

65. Chartered Accountants Academy (Zimbabwe)

Yes, the proposals sufficiently support the appropriate exercise of professional skepticism throughout the risk identification and risk assessment process. In order to deliver due care in an audit, there is need for that critical assessment in gathering audit evidence and a questioning mind. Since audit evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit. With this in mind, ED-315 has proposed for the emphasizing the importance of exercising professional skepticism in the introductory paragraphs.

66. FocusRoi Inc.

This is a good start but we believe much more guidance is needed on the practical use of professional skepticism.

Our experience is that staff are still willing to accept whatever the client says, particularly when they have a tight budget. It would be worth exploring the applicability of some of the techniques now being used by forensic auditors such as in evaluating information obtained or in learning how to watch for obvious body language clues when making inquiries.

67. Lynessa Dias

Agree that the proposals support appropriately the application of professional skepticism throughout the audit process. Encouraging the exchange of information amongst the engagement team, interactions with
internal auditors and the review of information from other regulatory and legal sources supports dialogue and assists in compiling the timing, nature and extent of substantive audit tests to be conducted.

71. UNSW Research Network

Our own research, and that of others, suggests that the proposals will support the appropriate exercise of professional skepticism throughout the risk identification and assessment process, especially as it relates to fraud risk. In particular, discussions among the engagement team (paragraphs 22, A41-A45) have been shown to result in higher levels of professional skepticism. We feel, however, that additional explanatory material emphasising that the engagement partner should consider the format of the discussion, and how to communicate with those not in attendance at the discussion, would be beneficial in supporting the appropriate exercise of professional skepticism.

Paragraph 22 (and the related explanatory material) is silent on the format that engagement team discussions should take. We believe that there is merit in noting that different formats may be more or less effective, depending on the circumstances. Our research (Trotman, Simnett and Khalifa 2009; Chen, Khalifa, Morgan and Trotman 2018; Chen, Trotman and Zhou 2015; Trotman, Bauer and Humphreys 2015), consistent with a number of other studies (e.g., Carpenter and Reimers 2013; Dennis and Johnstone 2018), highlight that differences in the nature and format of the discussion (e.g., face-to-face or electronic brainstorming), and those involved in the discussion, can facilitate or impede a robust risk assessment process. To illustrate, we (Trotman, Simnett and Khalifa 2009) find that different group formats and different instructions to group members affected the number and nature of potential frauds identified. In another study (Chen, Trotman and Zhou 2015), we find that when the discussion takes place via computer interaction (as may be the case when discussion participants are geographically dispersed), discussion impedes the risk assessment process and that this is caused, in part, by less experienced auditors relying on others to provide inputs into the discussion.

While supporting the ongoing requirement for audit team members to discuss the potential for material misstatement, we believe that the risk assessment process would be more robust if paragraph 21, in addition to noting that the engagement partner is to determine which matters are to be communicated to engagement team members not involved in the discussion, also notes that the engagement partner is to use professional judgment to decide the format of, instructions provided, and who will participate, when conducting the discussion. This can also be further elaborated upon in the explanatory material, by noting that the discussion can take many forms and that it is a matter of professional judgment as to what form such discussions should take in order to facilitate a robust risk assessment process.

In addition, our own research (Kim and Harding 2017), consistent with other research highlighting that the preferences of the auditor’s firm and superior can influence (both positively and negatively) their judgments (e.g., Peecher 1996; Wilks 2002; Shankar and Tan 2006), provides support for a communication plan (noted as being potentially useful in paragraph A45) in order to minimize deleterious consequences of the engagement partner inappropriately directing the risk assessment process, and to leverage off the benefits that such communication can have on elevating professional skepticism in the risk assessment process.

We have also undertaken research examining the effect on professional skepticism of differences in what the partner communicates to those not involved in the discussion (Harding and Trotman 2017). This research highlights that the nature of the communication with those not involved in the discussion can have a noticeable effect on the level of professional skepticism exercised by those receiving the engagement partner’s communication.

Based on this research, we recommend, in order to encourage professional skepticism in the risk assessment process, that paragraph A45 be expanded to note that the engagement partner should be cognizant, when communicating with those not included in the discussion, that what they communicate, and
how they communicate, might lead to auditor bias which can, depending on the circumstances, both positively and negatively impact the level of professional skepticism being exercised.

Also with reference to the exercise of an appropriate level of professional skepticism, we draw attention to recent developments in the academic literature regarding the representation of professional skepticism. The academic literature has, of late, addressed professional skepticism as both a mindset and an attitude (see Nolder and Kadous 2018). Broadly speaking, mindsets (i.e., "judgment criteria and cognitive processes and procedures to facilitate completion of a particular task") directs an auditor’s approach to risk assessment, and attitudes (i.e., beliefs and feelings that drive individual intentions and actions”) direct an auditor’s response to that risk assessment. Both mindsets and attitudes are important in encouraging and supporting an appropriate level of professional skepticism.

With reference to mindsets, the understanding of professional skepticism in the extant standards is consistent with a deliberative mindset that “...is characterized by receptivity, openness or alertness to new information, and an objective and unbiased assessment of the merits of the evidence” (Nolder and Kadous 2018, p.5). Attitudes, by comparison, refer to beliefs and, importantly, feelings that will influence future actions (e.g., response to an identified risk of material misstatement). While the current version of the proposed auditing standard goes some way to encourage and support an appropriate sceptical mindset and attitude, there may be opportunities for further improvements.

We support reference to contradictory evidence / information in paragraphs A19, A42 and A44 in that the consideration of contradictory evidence is indicative of the exercise of professional skepticism (including the identification of troubling patterns). However, in order to further encourage an appropriate level of professional skepticism, we recommend that thought be given to expanding paragraph A19 to refer to broad sources of information (that may include but not limited to the points noted) so as to avoid consciously and/or subconsciously narrowing the breadth of information search. Similarly, we note that particular reference is made to the consideration of contradictory evidence in paragraph A42 and suggest that other benefits of the engagement team discussion can be noted, including helping auditors to be open to new information, and different interpretations of the information, and to limit the possibility of prematurely forming a belief.

72. American Accounting Association

The proposed changes increase the extent to which professional skepticism is mentioned, encouraged, and discussed as an engagement team. As an emphasis on skepticism has been shown to cause auditors to more effectively and efficiently identify risk factors and choose relevant audit testing procedures (Carpenter and Reimers 2013; Dennis and Johnstone 2018), this should improve the risk assessment process. Additionally, the changes intended to promote a deeper understanding of the entity, its use of IT, and its operating environment, should increase the knowledge auditors possess which is a key input into making skeptical judgments (e.g. Hammersley 2011; Hurtt, Brown-Liburd, Earley, and Krishnamoorthy 2013; Nelson 2009). The explicit guidance provided in paragraph A5 should be helpful in assessing the risk of fraud associated with management’s personality-driven fraudulent tendencies as auditors tend to have difficulty appropriately applying professional skepticism when assessing subjective components of fraudulent behavior (Cohen, Dalton, and Harp 2017).