

Supplement D to Agenda Item 5

RESPONSES RECEIVED ON THE INVITATION TO COMMENT (ITC) ENHANCING AUDIT QUALITY IN THE PUBLIC INTEREST PROFESSIONAL SKEPTICISM

Note: This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the December 2015 ITC, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* and related analyses of significant issues are presented at the September 2016 IAASB meeting. All comment letters on the ITC can be accessed [here](#).

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Professional Skepticism (General Comments)

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	The concept of professional skepticism, for example, is meaningless to the user of a set of accounts unless some practical method of measurement can be introduced and the results of these measurements are available to end users. For example, metrics around the length of time a firm has served as a company's auditor; or the number of years the audit partner has been in charge of an audit may give some useful information to the user of accounts, rather than empty rhetoric around the desirability of professional skepticism.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	See specific questions PS1 & PS2.
10.	CPAB	See specific question PS2.
11.	EAIG	See specific question PS2.
12.	EBA	See specific questions PS1, PS2, PS4, and PS5.
13.	ESMA	See specific question PS2.
14.	H3C	--

15.	IAIS	--
16.	IFIAR	<p>9. We support the IAASB's commitment to address the topic of professional scepticism in order to find actions that the IAASB and others could take to enhance the application of professional scepticism since this issue is indeed linked with audit regulators' findings (as mentioned in the <u>2014 IFIAR Inspection Findings Survey Report</u> and <u>2015 IFIAR Inspection Findings Survey Report</u>).</p> <p>10. The ITC states that the IAASB's current efforts on quality control and group audits provide opportunities to reinforce the concept of professional scepticism [ITC §38]. In our view, the ITC does not allow for a clear view of the direction the IAASB wishes to take regarding professional scepticism in relation to quality control (ISQC 1 and ISA 220) and group audit (ISA 600). Please refer to our specific comments on professional scepticism in the Group Audit and Quality Control sections of this letter.</p>
17.	IOSCO	See specific questions PS1 and PS5.
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	<p>We agree with the IAASB that the interpretation and application of professional scepticism is a critical aspect of audit, and audit quality. Given the fact that concerns continue to be raised that auditors do not appropriately apply professional scepticism in the audit, it is in the public interest that the IAASB explore these issues further. In response to concerns similar to those raised in the ITC regarding the need to strengthen the application of professional scepticism in audits, in 2012, following a public consultation, the FRC published Professional Scepticism: Establishing a Common Understanding and Reaffirming its Central Role in Delivering Audit Quality which sets out our views on the nature of auditor scepticism and its role in the audit¹ ('Briefing Paper').</p> <p>A sceptical attitude is absolutely fundamental in delivering a rigorous and high quality audit. We believe that it should frame each of the judgments made by the auditor at every stage of the audit from risk assessment to forming the audit conclusion and reporting. These judgments define all the actions that the auditor takes in performing the audit and ultimately how effective those actions are in delivering a rigorous and high quality audit. Such an audit should obtain a high level of assurance (subject to the inherent limitations of an audit), and engender user² confidence and trust, that misstatements in the financial statements have been detected and either corrected or identified in the auditor's report.</p> <p>The definition of professional scepticism³ (set out in ISA 200⁴) incorporates three examples of how a sceptical attitude should be expressed in the audit (a questioning mind; alertness to possible misstatement; and critical appraisal of evidence). These are important ingredients</p>

¹ <https://www.frc.org.uk/Our-Work/Publications/APB/Briefing-Paper-Professional-Scepticism.pdf>

² A 'user' for the purpose of this response letter is an abbreviation of 'intended users' of the auditor's report (and the audited financial statements) which is described in the international auditing standards (ISA 200.3). As explained in paragraph 2 of ISA 320 'Materiality', judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. ISA 320 also explains that investors are providers of risk capital to the enterprise, and the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

³ Professional Scepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence (ISA 200.13)

⁴ ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

		<p>of its expression but we believe they need to be further developed to ensure that auditors understand and deliver more consistently what is expected of them in applying professional scepticism in the audit.</p> <p>Our experience as an audit regulator is that when auditors fail to apply professional scepticism appropriately it is because they fail to act appropriately on their understanding of which matters they should challenge, the extent of their challenge in relation to those matters, and what evidence they should obtain to satisfy those challenges. As set out in our Briefing Paper, and summarised on page 3, we believe that embedding a user perspective would assist auditors to apply the appropriate level of professional scepticism. The user perspective is critical if the auditor is to win user confidence and trust and deliver on the intended purpose of an audit, to enhance the credibility of the financial statements for users. In our experience, users are increasingly using the financial statements and other information to inform their stewardship of the entities in which they invest.</p>
National Auditing Standard Setters		
21.	AUASB	--
22.	CAASB	<p>Professional skepticism is the cornerstone of an audit. Although certain of our Canadian stakeholders indicated that they believe the practitioner's application of professional skepticism is robust, the AASB believes that further improvements can be made. Canadian regulators continue to identify a lack of appropriate application of professional skepticism as a root cause in their inspection findings, in particular in highly complex areas such as ISA 540¹. Therefore, the AASB is supportive of the IAASB's efforts in the challenging but critical area of professional skepticism.</p> <p>The AASB does however caution the IAASB as actions to enhance the application of professional skepticism are pursued, that the need for auditing standards to continue to allow for audits to be conducted efficiently and economically is kept top of mind. For example, if an increased emphasis is placed on the practitioner seeking contradictory evidence with an attitude of presumptive doubt, the AASB, in addition to certain of our Canadian stakeholders, expressed concern that this will inappropriately raise the amount of evidence practitioners must obtain to constitute sufficient appropriate audit evidence. Given the inherent judgment involved in applying professional skepticism, it is important that the IAASB give appropriate guidance to ensure that the possible actions pursued maintain an appropriate balance of the costs and benefits.</p> <p>Overall, it was clear to the AASB through our stakeholder consultations that the IAASB should focus their immediate efforts on:</p> <ul style="list-style-type: none"> • ensuring consistency in how professional skepticism is described throughout all the relevant international standards; and • including guidance throughout the ISAs on how to appropriately demonstrate and document its application. <p>Efforts to make changes in these areas are expected to have a positive impact on ensuring consistency and enhancement of the application of professional skepticism in the audit.</p>
23.	CNCC- CSOEC	--
24.	HKICPA	--

¹ ISA 540, *Auditing Accounting Estimates Including Fair Value Accounting Estimates, and Related Disclosures*

25.	IDW	<ul style="list-style-type: none"> Professional skepticism is a key factor for assurance engagements and hence a hallmark of the auditing profession, which impacts the public's expectations as to the auditing profession's role. We agree that the IAASB should explore this aspect of the audit further in order to determine how it relates to standard setting. For example, the IAASB needs to ask itself how the auditing standards themselves may need to embody professional skepticism. Are some aspects of extant standards biased overly towards evidence gathering to the detriment of the auditor applying a questioning mind? Due to its nature, professional skepticism is not an issue the IAASB can explore in isolation. Education and ethical aspects also play a significant role in achieving the means so the profession is to be perceived as exercising professional skepticism in an appropriate way. Thus the IAASB will need to address this issue in conjunction with the IAESB and the IESBA. The impact of a particular culture on both the exercise of professional skepticism within a firm and an individual auditor's propensity to follow-through in practice on any findings where particular emphasis had been placed on professional skepticism are issues we suggest will need careful consideration. To some extent such consideration will be linked to the notion of fortitude as mentioned in the ITC. Given these issues, we suspect that the IAASB will need considerably more time and resources to be in a position to address this particular area of the ITC than the other two areas.
26.	JICPA	--
27.	MAASB	--
28.	NBA	--
29.	NZAuASB	--
Accounting Firms		
30.	BDO	--
31.	CHI	--
32.	DTT	<p>Professional skepticism is critical to the performance of quality audits. While DTTL believes there has, in recent years, been advancement with respect to the application of professional skepticism and in the related audit documentation that evidences such application, DTTL is also cognizant that inspection results across the profession have indicated a recurring theme of instances when auditors did not appropriately apply professional skepticism and/or appropriately document the application of professional skepticism. DTTL is of the view that revisions to the standards alone will likely not achieve the objective of improving auditor performance in this area. In response to the calls to action as a result of such inspection themes, DTTL provides the following comments:</p> <ul style="list-style-type: none"> DTTL believes that the definition of professional skepticism as set forth in paragraph 13(I) of ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards of Auditing in combination with other related guidance appropriately establishes an overarching concept of professional skepticism that is understandable for both

		<p>auditors and other stakeholders. However, it would also be beneficial for examples to be provided regarding how professional skepticism may be applied and demonstrated in specific judgmental areas. Such examples could be provided:</p> <ul style="list-style-type: none"> ○ Through a staff audit practice alert or other similar practice aid which can expand on the characteristics and leading practices in the application of professional skepticism and build on the material provided in the IAASB's Staff Questions and Answers on this topic.¹ ○ As an adjunct to the standards revision process. Specifically, as standards are revised, it would be helpful for additional emphasis, guidance and examples to be incorporated. In this regard, DTTL would, for example, recommend including such enhancements with respect to its project on ISA 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>. DTTL believes making such enhancements at the same time as other revisions are made to a given standard would be more pragmatic than a pervasive update of all auditing standards at once to include references to professional skepticism. To facilitate the incorporation of professional skepticism in this more practical in-depth way into the standards, the IAASB may consider developing a framework for doing so. Such a framework would help with consistency and could, for example, include a focus on emphasizing those areas where there is likely to be more complexity or subjectivity such that the related professional judgments will be more complex and the appropriate exercise of professional skepticism will likely be more challenging. This framework could then be applied as the standards are revised. • Furthermore, DTTL recommends that the IAASB continue to engage with audit regulators and oversight bodies to better understand root causes of inspection findings related to professional skepticism (which are often very specific rather than generalized findings). The IAASB may then consider how any lessons learned could be incorporated into the content of its standards and any accompanying guidance or implementation resources. As the root causes likely extend beyond matters related to auditing standards and related guidance, DTTL is supportive of the approach to this project which includes a working group of representatives of the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB).
33.	EYG	<p>The IAASB's standards are of critical importance to the execution of high-quality audits, which inherently involve auditors acting independently, objectively and with the appropriate application of professional skepticism. Because professional skepticism is fundamental to the audit process, we are very supportive of the IAASB's efforts to directly consider and address the concept of professional skepticism. In forming our response to the ITC, we have found it helpful to consider professional skepticism not only in isolation but in the specific contexts of quality control and group audits. We encourage the IAASB to explicitly include consideration of enhancements related to professional skepticism in the scope of its projects to revise the International Standards on Auditing (ISAs) on a go-forward basis.</p> <p>Regardless of the approach that the IAASB decides to take in developing enhanced guidance or new enablement for the appropriate application of professional skepticism, we believe it is most important that any new thinking on professional skepticism be "brought to life" through the ISAs in order to resonate with auditors and stimulate the behavioral improvements the IAASB is seeking.</p> <p>Common to all three of the topics in the ITC is the importance of leadership and accountability for audit quality. We agree that firm leadership is responsible for driving a quality-oriented culture in which leaders set the appropriate tone to convey that performing high-quality audits is the top priority and cascade supporting messages throughout the firm. Those messages should include promoting the appropriate application of professional skepticism. At the engagement level, the engagement partner (or group engagement partner)</p>

¹ IAASB Staff Questions and Answers, *Professional Skepticism in an Audit of Financial Statements* (February 2012).

		should be responsible for setting an appropriate engagement tone-at-the-top and instilling responsibility for audit quality in all engagement team members. We support several of the proposed actions in the ITC to emphasize responsibility and accountability for audit quality at the firm and engagement levels, but we also encourage emphasizing in the ISAs the fact that all engagement team members need to understand their personal responsibilities for audit quality and act accordingly, which is closely related to all team members applying professional skepticism appropriately.
34.	GTI	--
35.	KPMG	--
36.	PwC	<p><i>Standards should recognise that auditing is fundamentally behavioural in nature and, therefore, requirements and application material need to be designed in a way that will promote the mindset necessary to support the appropriate application of professional scepticism and professional judgement.</i></p> <p>Application of professional scepticism in the audit process is fundamentally important to audit quality. We support measures that can help auditors in the practical application of professional scepticism. Exploring how individual auditor behaviours, and inherent conscious and unconscious biases, impact the application of professional scepticism is critical to understanding how to better promote its consistent application. Changes to auditing standards cannot address all of the issues being raised about scepticism. In the end, it is something that is fundamentally behavioural in nature and we believe there is much that the profession can learn from academics and others who have insight into and expertise in behavioural sciences.</p> <p>At the same time, we believe it is important for the IAASB to explore what is behind some of the criticism. We believe that at least some of the differences in perception regarding scepticism will only be resolved through dialogue at a more granular level. In relation to accounting estimates, for example, exploring:</p> <ul style="list-style-type: none"> • What is considered to be sufficient challenge of key management judgements in making an estimate? Or perhaps worded a different way, what constitutes sufficient appropriate audit evidence in relation to those judgements? • What is expected in audit documentation to clearly demonstrate the challenge and evaluation that took place over management's judgements? <p>We strongly support, therefore, the Board's focus on these issues in its project on accounting estimates.</p>
37.	RBI	--
38.	RSM	--
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	--
42.	GAO	--

43.	INTOSAI	--
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	<p>2.5. AAT considers it important that only suitably skilled audit personnel with a proper sceptical attitude of mind should be those drawing conclusions from the output from audit procedures (see 3.6 below).</p> <p>2.8. AAT considers that analytical review of financial statements by suitably experienced audit personnel is the most effective audit tool in recognising professional scepticism and demonstrating quality control (see 3.5 below).</p>
46.	ACCA	--
47.	AIC	--
48.	AICPA	--
49.	APESB	--
50.	CAANZ	--
51.	CAI	--
52.	CAQ	<p>The CAQ appreciates the opportunity to respond to the International Auditing and Assurance Standards Board's (IAASB) <i>Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits</i> (the ITC). The IAASB's work on professional skepticism as an essential input to audit quality correlates with work undertaken by the CAQ. For example, through collaborative initiatives with other stakeholder groups, the CAQ has contributed to market-based tools and resources aimed at reinforcing the need for professional skepticism throughout the financial reporting supply chain.¹ As noted in the IAASB's <i>A Framework for Audit Quality</i>, while auditors are primarily responsible for delivering on their commitment to audit quality, "audit quality is best achieved in an environment where there is support from other participants in the financial reporting supply chain."² The CAQ encourages the IAASB to continue its work on developing a holistic global view of audit quality and applauds the IAASB's outreach to</p>

¹ For example, the CAQ participates in the Anti-Fraud Collaboration with Financial Executives International, the National Association of Corporate Directors, and the Institute of Internal Auditors, to leverage existing resources and facilitate the development of tools, resources and other information targeted to each member of the financial reporting supply chain to assist them in their role in deterring and detecting fraud. More information on the Anti-Fraud Collaboration is available at <http://www.thecaq.org/policy/anti-fraud-collaboration>. See also, the Audit Committee Collaboration at <http://www.auditcommitteecollaboration.org/>. The CAQ also worked with the Standards Working Group of the Global Public Policy Committee to commission and distribute the paper *Enhancing Auditor Professional Skepticism* in November 2013. That paper, co-authored by Professors Douglas F. Prawitt and Steven M. Glover, provides ideas and recommendations on how the application of professional skepticism might be enhanced by auditors. The paper is available at <http://www.thecaq.org/docs/research/skepticismreport.pdf>. See also, *Professional Judgment Resource* (2014), which is designed to provide auditors with an example of a decision-making process to facilitate important auditing and accounting judgments in a professionally skeptical manner. The paper is available at <http://www.thecaq.org/reports-and-publications/professional-judgment-resource>.

² IAASB, *A Framework for Audit Quality* (2013), p. 3, available at <http://www.ifac.org/system/files/publications/files/A%20Framework%20for%20Audit%20Quality.pdf>.

		<p>gather multi-stakeholder input on these important topics. The auditing profession is committed to working with all stakeholders to continually improve audit quality and enhance the confidence investors and others place in the integrity of audited financial statements.</p> <p>Our comments are specifically focused on our views related to professional skepticism and quality control. We are not providing comments on group audits at this time in anticipation of developing a CAQ response to the U.S. Public Company Accounting Oversight Board's (PCAOB) Proposed Amendments Relating to the Supervision of Audits Involving Other Auditors and Proposed Auditing Standard – Dividing Responsibility for the Audit with Another Accounting Firm.³ This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.</p> <p>As we explain in further detail in this letter, the CAQ believes that the IAASB should consider implementing the following measures to enhance the consistency of execution by auditors of an appropriate level of professional skepticism and application of ISQC 1. It is important to highlight that although we believe that more clarification and interpretation through additional guidance on how auditors can appropriately apply professional skepticism under the standards is needed, we feel it is essential that auditing standards continue to be principles-based and non-prescriptive. The amount of additional guidance should be sufficient to make the standards operational, but should not seek to answer every possible question. Also, at this time we are not proposing that any of the auditing standards need to be revised. Rather, as the IAASB considers revisions to existing standards or the development of new standards, the IAASB should consider whether to include application material within the standard that would help guide the auditor's appropriate application of professional skepticism.</p> <ul style="list-style-type: none"> • As a first step, supplement the IAASB staff's guidance that was issued in February 2012 to provide clear direction and practical application examples on what behaviors and actions constitute appropriate professional skepticism in executing an auditor's responsibility to obtain sufficient appropriate audit evidence across a range of risk scenarios for different assertions and accounts. • Over the longer term and as the IAASB revises existing standards and develops new standards, the IAASB should consider whether the concepts included in the international standard for auditing accounting estimates can be incorporated into those standards. This includes both performance standards and those dealing with a firm's system of quality control. • Establish a process to carefully consider the potential impact of proposed standards based on existing drivers of and impediments to professional skepticism. • Offer supplemental guidance to the quality control standards that provides examples of how firms can meet the objectives of ISQC 1, such as by using a Quality Management Approach, and incorporate methodologies for identifying root causes and approaches to remediation that includes discussion on how various factors can impact skepticism, and on how a firm may utilize information about underlying causes of both negative and positive quality events to enhance the firm's quality control system.
53.	CIIPA	--
54.	CIMA	--
55.	CPAA	--
56.	DnR	--
57.	EFAA	--

³ PCAOB Release No. 2016-002 (April 12, 2016), available at <http://pcaobus.org/Rules/Rulemaking/Docket042/2016-002-other-auditors-proposal.pdf>.

58.	FACPCE	--
59.	FEE	(7) Last but not least, the standards need to continue emphasising the need for professional scepticism and professional judgement to be applied, especially in the context of accounting estimates. We very much welcome the current project on revising International Standard on Auditing (ISA) 540 Auditing accounting estimates, including fair value accounting estimates, and related disclosures and the coordination that will take place between the task forces dealing with both projects. Also, the IAASB should encourage others to develop practical case studies illustrating how professional scepticism should be applied in practice, and should continue liaising with accounting standard setters on challenging areas.
60.	FSR	--
61.	IBA	--
62.	IBRACON	--
63.	IBR-IRE	--
64.	ICAEW	--
65.	ICAP	--
66.	ICAS	--
67.	ICAZ	--
68.	ICPAK	--
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	--
73.	MICPA	--
74.	SAICA	--
75.	SMPC	--
76.	WPK	--
Academics		

77.	AAA	--
78.	AH	--
79.	Glover-Prawitt	--
80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	--
84.	JGrant	--
85.	JK	--
86.	KKTuraga	--
87.	SDeViney	--

PS1. Is your interpretation of the concept of professional skepticism consistent with how it is defined and referred to in the ISAs? If not, how could the concept be better described?

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>The ISA defines professional skepticism as, “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.”⁵ We believe that a “questioning mind” and “a critical assessment of audit evidence” by the auditor are essential to high-quality audits. We also believe that auditor integrity, independence, objectivity and professional competence are also important. However, our interpretation of the concept of professional skepticism is not totally consistent with how it is defined and referred to in the ISAs. We believe that there should be greater emphasis on independence.</p> <p>The CalPERS Governance Principles highlight the importance of auditor independence stating that:</p> <p style="padding-left: 40px;">Auditors should provide independent assurance and attestation to the quality of financial statements to instill confidence in the providers of capital.⁶</p> <p>Professional skepticism reflects an auditor’s sound judgment and is essential to audit quality. The professional skepticism standard encourages reasonable and balanced assurance on financial reporting matters to investors. We believe that approaching audits with professional skepticism best positions the auditor to ask relevant questions, challenge management assertions, and confidently opine on the quality of a company’s financial statements. We believe this process is bolstered when the auditor is truly independent. A recent accounting article, The Effect of Networked Clients’ Economic Importance on Audit Quality, highlights this issue.⁷ The researchers found that audit partner dependence on fees from other companies in a network reduces audit quality.</p>
2.	CalSTRS	<p>CalSTRS supports the IAASB in continuing to provide examples and definition of professional skepticism in an audit of financial statements. The ISAs define professional skepticism as “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.” They explicitly require the auditor to plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. We refer to the 2012 document issued by IAASB staff and IAASB Chairman on Professional</p>

⁵ See, paragraph 13 (I), <http://www.ifac.org/system/files/downloads/a008-2010-iaasb-handbook-isa-200.pdf>

⁶ See, p. 34, [The CalPERS Global Governance Principles](#), dated March 14, 2016

⁷ See, Sarowar Hossain, Gary S. Monroe, Mark Wilson and Christine Jubb (2016), The Effect of Networked Clients’ Economic Importance on Audit Quality. AUDITING: A Journal of Practice & Theory In-Press.

		Skepticism in Audit of Financial Statements. ¹⁴ It is important to point out the ISAs require the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve any doubt about reliability or possible fraud. Objectivity based on knowledge, skill and ability is the intersection between attributes, mindset and action to promote an attitude of professional skepticism that includes a questioning mind, a critical assessment of the appropriateness and sufficiency of audit evidence.
3.	CFA	<p>We believe it is important to re-emphasize the important role of professional skepticism in all aspects of the audit from planning to risk assessment, to scoping, to execution including challenging management assertions.</p> <p>To achieve proper application of professional skepticism the IAASB should develop a professional judgment framework to establish a process whereby an auditor can apply professional skepticism and arrive at a conclusion. This would involve:</p> <ul style="list-style-type: none"> • Defining the issue • Identifying alternatives • Collecting evidence • Reaching and documenting the conclusion. <p>Further we believe the IAASB should:</p> <ul style="list-style-type: none"> • explore the different definitions of professional skepticism to ascertain whether the ISA definition is most appropriate; • clarify the application of professional skepticism in an audit; • emphasize the role that firms play in developing a skeptical mindset; • explore behavioral and training issues; and • consider emphasizing the importance of professional skepticism when revising specific ISAs; <p>to ensure appropriate application of professional skepticism in order to raise audit quality.</p> <p>We draw your attention to the recent survey conducted by CFA Institute as it relates to behavioral biases in investment decision making, which identified that professional skepticism was most useful for successful investment decision making. Professional skepticism we believe is applicable in making decisions about investments as well as audits. From the survey, respondents overwhelmingly The survey and further analysis can be found via the following CFA Institute blog: The Behavioral Continuum: What's the Best Behavioral Bias?</p> <p>We understand that this behavioral aspect as it relates to the auditor is complicated and that the IAASB will be challenged to further strengthen the audit standards and related application guidance. None the less it is a foundational concept in advancing further changes in auditors delivering high quality audits.</p>
4.	IA	Misstatements not only arise from error or fraud, as set out in the ISAs, but also from management seeking to present more favourable results when making estimates and judgements. It is important that the auditor addresses this natural bias and proactively challenges management when exercising scepticism. This should be addressed in the standards. The standards should also explain

¹⁴ IAASB Staff Questions and Answers, "Professional Skepticism in an Audit of Financial Statements," International Federation of Accountants, February 2012. <http://www.ifac.org/system/files/publications/files/IAASB%20Professional%20Skepticism%20QandA-final.pdf>

		<p>the risks to scepticism being applied and the safeguards necessary to address those risks. For example, auditors need to manage situations where their scepticism could be impaired.</p> <p>Moreover, it is vital that any issues identified when management is challenged are followed through until either there is sufficient evidence to allay any concerns or the issues are addressed. This necessitates an audit team that has the time, seniority and skills to probe issues and, as these issues may not have been envisaged when the audit plan was set, an audit fee that allows for this. In this context, as part of the new Extended Form Auditor Report, investors would appreciate more transparency on the changes in audit scope not only from year to year, but also between the initial audit plan and the audit's completion.</p> <p>The ISA definition of professional scepticism is "an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence¹".</p> <p>The Investment Association considers that this does not go far enough. In particular, misstatements not only arise from error or fraud, but also from management seeking to present more favourable results when making estimates and judgements. It is important that the auditor addresses this natural bias and proactively challenges management as opposed to simply adopting a questioning mind.</p> <p>It is vital that any issues identified from this challenge are followed through until either there is sufficient evidence to allay any concerns or the issues are addressed. The audit team needs to have the time, seniority and skills to probe issues and, as these issues may not have been envisaged when the audit plan was set, an audit fee that allows for this. In this context, as part of the new Extended Form Auditor Report, investors would appreciate more transparency on the changes in audit scope not only from year to year, but also between the initial audit plan and the audit's completion.</p> <p>Moreover, as scepticism is a set of behaviours and is more about how it is applied, it may be helpful to give guidance and examples in the standards as to what types of behaviours and actions constitute appropriate professional scepticism. The standards should also explain the risks to scepticism being applied and the safeguards necessary to address those risks. For example, auditors need to manage situations where their scepticism could be impaired. (In this context, we are aware that certain of our members wrote to the UK's Financial Reporting Council relation to EY's position as auditor of both Shell and BG Group. EY has long been auditor of BG Group and following a tender in May 2015, Shell announced the appointment EY as auditor for 2016. Shell acquired BG Group in early 2016 and these members' concerns are whether EY's objectivity and scepticism may be compromised if, for example, during the course of 2016 a material error in BG's 2014 and 2015 accounts comes to light.)</p>
5.	ICGN	<p>ICGN views professional skepticism as critical to investor confidence and requires a challenging, questioning approach to the audit be undertaken by all on the audit team. The ISA definition of professional skepticism is that it is "an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."¹⁰ ICGN believes these important concepts would be more operational if the audit literature more clearly connected them with actions the auditor should take to demonstrate and document how they apply skepticism. A clearer definition of professional skepticism might outline its relationship to professional judgments that prompt the auditor to act.¹¹</p>

¹ ISA 200, paragraph 13(l)

¹⁰ ISA 200, par. 13(l).

¹¹ For example, the diagram on p. 13 of the Overview illustrates how professional scepticism is applied in making professional judgments and driving action.

6.	NZSA	PS1 to PS5. The NZSA recognises the need and desire for Professional Skepticism; but the user of a set of accounts will be more interested in what metrics can be produced to demonstrate Professional Skepticism has been applied by the Auditor in reviewing an organisation's operation/accounts.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	The AICD endorses the focus on professional scepticism that the IAASB is encouraging and supports the proposal to align the concept of professional scepticism throughout auditing standards. However, we caution against adopting documentation and compliance obligations that could be administratively complex and costly.
Regulators and Audit Oversight Authorities		
9.	BCBS	The Committee would welcome the alignment of the definitions in the standards and enhancements to the standards that would improve auditors' actual and perceived professional scepticism. We believe professional scepticism should be consistently addressed in ethical and educational standards. We encourage the IAASB to interact with the other standard setting boards in this regard. Finally, the roles of the engagement partner, quality review partner, and those charged with governance within a firm with respect to fostering an attitude of professional scepticism in the firm's audit staff should be enhanced and clarified.
10.	CPAB	--
11.	EAIG	See response to question 2
12.	EBA	<i>Consistency of professional scepticism across the ISAs, IESs and IESBA Code</i> In addressing issues related to the application of professional scepticism, as a starting point, the IAASB (jointly with the International Accounting Education Standards Board 'IAESB' or/and the International Ethics Standards Board for Accountants 'IESBA') could develop a common definition or framework for professional scepticism across the ISAs, International Ethics Standards ('IESs') and IESBA Code, to ensure a common understanding for this notion. Professional scepticism is barely discussed in the ethical standards at present. It will be necessary for the IAASB to collaborate with IESBA because professional scepticism extends beyond auditing standards to the ethical requirements and ethical practices which need to be applied by auditors. Due to the inherent potential conflict of interest between an auditor being engaged by, and building relationships with, the management of an entity on one side and on the other side, serving in the interest of the shareholders and the public by enhancing the degree of confidence in the financial statements; familiarity and self-interest threats may arise. The skeptical mindset of the auditor is one of the safeguards against these threats and should, therefore, be part of the ethical standards. It then follows also that a concept that is fundamental to ethical and auditing standards needs to be part of the IAESB's educational material. Day to day application: professional scepticism is more than independence of mind and it needs to be embedded in the daily audit practice. The audit standards should reflect practical steps that the auditor can take to apply and demonstrate professional scepticism.

		<p>Critical assessment of audit evidence: the definition of professional scepticism in paragraph 13 and the relevant application guidance in paragraphs A18-A22 of ISA 200, Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing may be leading auditors to consider that they only need to assess whether management has provided sufficient evidence to support their assertions. However, we believe that professional scepticism goes beyond this and an auditor should also consider alternative sources of audit evidence. In this regard, the definition of professional scepticism could also refer to the auditor ‘gathering and weighing even-handedly evidence both for and against management’s assertions’. Having said that, we are also concerned that undue reliance may be placed by an auditor on audit evidence obtained in the form of management representations, without sufficient audit evidence obtained from alternative sources. In this regard, we would welcome further enhancements of ISAs to address this issue as part of the work on professional scepticism. We would also support extending the requirements of the revised ISA 540 for the need to consider ‘contradictory evidence that comes to the auditor’s attention’. Paragraph 39 in the Overview of the ITC seems not to address sufficiently the possible misinterpretation of ISA 540 (when an auditor remains passive and does not need to make reasonable efforts to look for contradictory evidence), although this contradiction is recognised in paragraph 21 in the Overview of the ITC.</p>
13.	ESMA	<p>ESMA considers that the consultation document provides a high level overview on professional scepticism. However, it is our view that more concrete work is needed in order to have conclusions and actions to be carried out in the future. Suitable principles based definitions of the key concepts surrounding professional scepticism could be developed to ensure appropriate understanding and application. Having said that, ESMA acknowledges that the subject is an area relatively complex to address, because it requires judgement and it is directly related to auditors’ state of mind and behavior.</p> <p>The degree of professional scepticism throughout the audit might vary with some areas such as risky assets complex financial instruments or accounting estimates requiring more professional judgment than others. The definition in ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing might not fully capture that the level of applied professional scepticism should change depending on the level of uncertainty or range of outcomes. The EU legal framework⁴ includes a definition of professional scepticism which is wider than the one in ISA 200 by providing direction on the circumstances when professional scepticism is of particular importance. In this regard, ESMA encourages the IAASB to assist auditors in upholding a higher degree of professional scepticism in judgmental areas by including triggering elements in the relevant auditing standards.</p>
14.	H3C	<p><i>Need for appropriate recruitment and training</i></p> <p>In our view, the standards should stress the importance of considering skills in the recruitment process, and on keeping skills up-to-date through continuing education, or indeed developing new skills in relation to the changing environment (IT, financial information ...). Especially, in a context of fee pressure, these fundamental needs should not be disregarded.</p> <p>Ensure consistency between the ISAs, the IESBA Code of Ethics, and International Education Standards</p> <p>We draw the IAASB’s attention to the need to strive for alignment between the provisions of ISAs, the IESBA Code of Ethics and the International Education Standards.</p>

⁴ In the EU legal framework, Article 21 “Professional ethics and scepticism” of the Audit Directive.

		<p><i>Importance of documenting audit work</i></p> <p>Many inspection findings point to an absence or insufficiency of audit documentation. We believe it is important to reinforce the need for sufficient, appropriate audit documentation as a vehicle for supporting and explaining the work performed by the auditor.</p>
15.	IAIS	<p><u>ISA definition:</u> An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence (ISA 200, §13 (I)).</p> <p>The IAIS believes it is difficult for a single definition to fully capture a complex abstract concept. In our view, this definition does not stress enough the three important aspects of professional skepticism:</p> <ul style="list-style-type: none"> – It should apply on a permanent basis; – It is a questioning mind based on a propensity to doubt; – It requires professional experience and judgement. <p>Firstly, professional skepticism is a permanent attitude that should assimilate new information throughout the audit process.</p> <p>Secondly, the definition of professional skepticism should drive appropriate action or behaviour by the auditor. We recommend the IAASB reinforce this definition, to make it less ‘neutral’ by introducing a concept of a questioning mind that would tend to exhibit a more doubting attitude. This doubting attitude, depending on the circumstances and the information available regarding an account or an assertion, would lead the auditor to undertake actions and decisions so as to gather the evidence needed to be convinced that the risk of material misstatement is effectively low. Too neutral a vision of professional skepticism could lead to an approach where audits focus too much on corroborating management assertions and do not really exercise professional skepticism until some combination of facts and indicators suggest a clear problem with those assertions.</p> <p>Furthermore, professional skepticism is closely interrelated with professional judgment. Professional skepticism cannot be considered as professional without sound professional experience and judgment. In order for skepticism to function properly, the auditor must have the requisite technical knowledge and experience that relates to key judgement areas in the audit of a particular industry. For example, in order to challenge the valuation of an insurer’s assets and liabilities adequately, which may also involve challenging the auditor’s own actuarial or other expert, the auditor must have appropriate expertise in assessing underwriting, credit and market risk. Even where an auditor has extensive experience and sound accounting knowledge, an auditor that does not have the requisite technical knowledge in these specialist areas is often not well-placed to challenge clients or his own expert on more technical matters that involve judgement. Thus there is a greater risk that the auditor in such cases seeks to justify the client’s conclusion and accepts outcomes over a wide range, and so is not sufficiently skeptical.</p>
16.	IFIAR	--
17.	IOSCO	<p><u>Understanding the “Root Causes”</u></p> <p>We believe that there may be other significant factors, such as, a lack of due care, objectivity, and/or professional competence which may sometimes be mislabeled as a lack of professional skepticism or that may contribute to a lower perceived level of skepticism and negatively affect audit quality as well. For example, it may be a lack of due care rather than solely a lack of professional skepticism when the auditor neglects to investigate inconsistent audit evidence in order to meet a tight deadline to issue the auditor’s report. While professional skepticism, due care and objectivity are separate concepts they are also interrelated. As such, we would like to emphasize that it is critical to understand the interplay between these three concepts in order to more appropriately address</p>

		<p>the issues in practice. Certain of these practice issues cannot be mitigated through standard setting alone, and instead are likely dependent on broader improvements to culture, quality control and processes at firms. Therefore, we encourage the Board to engage in further dialogue among all constituencies to better understand these dynamic issues.</p> <p>Relatedly, we have observed that the lack of professional skepticism has consistently been identified by auditor oversight bodies as one of the top audit inspection findings. There may be a need however for greater transparency about the criteria used in making such determinations and the factors that contributed as there could be several potential reasons for this occurrence. We believe it is important for the Board to identify which of these issues can be addressed through standard-setting versus through other more appropriate solutions. In this regard, while we agree with the Board that “the concept of professional skepticism, and the expectations of how auditors should appropriately apply it, may need to be more clearly articulated in our standards”, we believe it is of paramount importance that the Board work closely with auditor oversight bodies to understand the reason/“root cause” or underlying contributors for the inspection findings that are today considered to be indicative of a lack of professional skepticism and what steps those bodies would have expected auditors to perform to evidence the appropriate level of professional skepticism. This could assist the Board in narrowing its focus in this broad area of professional skepticism.</p> <p><u>Defining Professional Skepticism and Enhancing Application in Standards</u></p> <p>We recognize that the concept of professional skepticism can be rather abstract and relatively complex to address because it embodies behavioral traits and relates to the auditor's state of mind and attitude. Nonetheless, we encourage the Board to formulate a definition that is concrete and practical yet broad enough so that it is not easily distilled into a “check the box” activity.</p> <p>We encourage efforts of the Joint Working Group described in the Paper to explore if it is clear enough what is meant by the term “professional skepticism” and whether current requirements and guidance in the international standards that refer to professional skepticism are clear enough, particularly in subjective and highly judgmental areas. In these efforts, we encourage all parties to explore ways to emphasize that professional skepticism may not be an “all or nothing” concept but rather can be exercised to varying degrees in practice, which in some instances may be judged to be insufficient albeit not absent.</p> <p>Of similar importance are standards that the Board could establish to obligate the accountant to take ownership of actions that minimize or eliminate the potential for deficiencies in professional skepticism and enhance the quality of the audit. The Board could use language in the standards such as “challenging management’s reasoning or sources” rather than “corroborating evidence” that shifts the auditor’s mindset from one of an accepting attitude to one that is more skeptical.</p> <p>We believe that the exercise of professional skepticism is not simply a verification process but it is a mindset that enables the auditor to gather audit evidence and, apply sound judgment that, when combined with relevant levels of experience, can result in the auditor making sense of the sufficiency and appropriateness of the evidence obtained. This may require the auditor to take on a more assertive and proactive attitude rather than a passive one in conducting the audit. To drive this concept, the Board may wish to consider how different strategies could be used to influence the auditor’s mindset. A few examples of this include the following:</p> <ol style="list-style-type: none"> 1. The standards could be written in a manner that compels the auditor to critically evaluate audit evidence obtained; 2. Emphasize in the standards the need for auditors to critically evaluate conflicting audit evidence; 3. Auditors could be reminded to resist persuasion and to objectively consider issues from different perspectives; and
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18.	IRBA	<p><i>Professional Scepticism and Professional Judgement</i></p> <p>45. Professional scepticism and professional judgement are closely related but are two distinct concepts contained in the ISAs and should not be used interchangeably.</p> <p>46. We believe that it is necessary for the ISAs to clearly distinguish the two concepts and provide clear guidance on the interaction between the two concepts as well as clear guidance on the documentation requirements relating to the two concepts.</p>
19.	MAOB	--
20.	UKFRC	<p>Core principles to guide standard setting activity (Section 1 of Appendix 1)</p> <p>We support the approach of the IAASB to identify specific public interest issues in relation to the three projects set out in Table 1 of the ITC. We believe that the IAASB could consider taking this approach a step further and develop a set of core principles that would guide its future standard setting activity in serving the public interest. For example, we believe that 'Transparency for Users' could be established as a core principle. In meeting such a principle, the IAASB would aim to ensure that the outcome of its standard setting activity will result in investors and other stakeholders (such as those charged with governance) having greater insight into the audit process and audit firm governance. Related to 'Transparency for Users', we have also proposed another core principle 'Embedding a User Perspective', described further below.</p> <p><i>Embedding a user perspective throughout the audit</i></p> <p>We believe that the IAASB should also consider how to embed the perspective of users more widely in the entire audit process. To be effective, embedding a user perspective should include not only considering how to require that perspective to be taken into account, but also how the auditor obtains and maintains their understanding of user expectations. It should therefore involve consideration of mechanisms for communications between users and audit firms and auditors, including requirements for Transparency Reporting by audit firms and additional auditor reporting about matters relevant to audit quality (such as the auditor's materiality judgments and their approach to the audit, in the context not only of risks of material misstatement but also of risks to</p>

	<p>audit quality). For example, under the ISAs (UK and Ireland) we require auditors of public interest entities to report on matters relating to materiality and audit scope.</p> <p>In respect of professional scepticism, embedding a user perspective would include considering how to require auditors to be able to demonstrate that they have adequately taken into account what users would expect them to ask, what matters users would expect them to challenge, how far users would expect them to go in challenging those matters, and ultimately what evidence users would expect them to obtain to satisfy those challenges. We also highlight in our response ways in which a user perspective might be embedded in the quality control standards and in relation to group audits.</p> <p>Interpretation of the concept of professional scepticism</p> <p>In 2010, the FRC released a <i>Discussion Paper: Auditor Scepticism: Raising the Bar</i>²¹ in response to concerns similar to those raised in the ITC regarding the need to strengthen the application of professional scepticism in audits. A feedback paper was published in March 2011²², which outlined the action that the FRC intended to take. A key first action was to establish a consistent understanding of the nature of professional scepticism and its role in the conduct of an audit. Accordingly in March 2012 the FRC published <i>Professional Scepticism: Establishing a Common Understanding and Reaffirming its Central Role in Delivering Audit Quality</i>²³ ('Briefing paper').</p> <p><i>Elements of the concept of professional scepticism</i></p> <p>The FRC identified and sought input on two elements of the concept of professional scepticism: (a) an auditor's 'initial mind-set'; and (b) a 'sliding scale' of action by the auditor in <u>applying</u> professional scepticism in response to audit findings.</p> <p>We found some inconsistency in understanding of the expected initial mind-set. In particular, some supported a view that it should reflect a 'neutral' attitude to 'trust' in management and to the expectation that there may be misstatements. Others thought that it should reflect a more challenging attitude that exhibits '<i>a heightened awareness of the risk that the figures could be affected by error or dishonesty</i>', which we had referred to as 'presumptive doubt'. There was a strong negative reaction to this term from many respondents, on the basis that it could imply a wholly distrusting attitude that might not be justified. As a result, the FRC concluded that the term 'presumptive doubt' would not be helpful in establishing a common understanding of the required initial mind-set.</p> <p>However, the FRC concluded that professional scepticism could not be described as a 'neutral' attitude either. The ISAs describe an attitude that includes a 'questioning mind' and an awareness of (being alert to) conditions which may indicate potential misstatement, 'notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance'. The FRC was concerned that a 'neutral' attitude would be seen as too passive and would imply that the auditor's role could be limited to ensuring that management have appropriate evidence to support its assertions. The FRC did not accept this if it meant accepting the evidence management presents without subjecting it to robust challenge and comparison to alternative sources of evidence.</p> <p>This was particularly important given that:</p>
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²¹ <https://www.frc.org.uk/getattachment/2a1e0146-a92c-4b7e-bf33-305b3b10fcd2>

²² <https://www.frc.org.uk/Our-Work/Publications/APB/Discussion-Paper-Auditor-Scepticism-Raising-the-Ba/Feedback-Paper.aspx>

²³ <https://www.frc.org.uk/Our-Work/Publications/APB/Briefing-Paper-Professional-Scepticism.pdf>

	<ul style="list-style-type: none"> • professional scepticism is applied during the planning process to assess the risk of material misstatement in the different elements of the financial statements and that these risk assessments are fundamental in determining the actions to be taken by the auditor and the nature and extent of evidence to be obtained as the basis for the audit opinion; and • many items in the financial statements are accounting estimates, which require management judgment and are susceptible to management bias. <p>We would encourage the IAASB to consider the Briefing paper more fully in their work but wish to highlight some of the key conclusions that it set out:</p> <p><i>Professional scepticism and its role in the audit</i></p> <p>The FRC concluded that, in essence, the <u>perception</u> and reality of the expression of professional scepticism underpins the confidence and trust in the audit that users develop and in turn the confidence they have in the audited financial statements. This is because professional scepticism underpins the quality of each audit judgment and, through these judgments, the overall effectiveness of the audit in addressing the challenges it faces in meeting the needs of shareholders and other stakeholders (users) for whose benefit the audit is performed. Further, the appropriate application of professional scepticism in the audit therefore requires a mind-set which rigorously questions and challenges management's assertions with an attitude that reflects the expression of an attitude of doubt that is consistent with the expectations of those users. Such an attitude would demand strong evidence to back each audit judgment – and ultimately to back management's assertion that the financial statements give a true and fair view - that would be convincing and persuasive to users. Accordingly, all judgments made in the course of the audit should be founded on the perspective of the users.</p> <p><i>Aligning performance outcomes with the perspective of users</i></p> <p>In exploring what this would mean from a practical perspective for auditors, we concluded that the ISAs need to embed the importance of considering the user perspective more widely. When conducting the audit, the auditor should focus on ensuring that the nature and extent of the actions they take <u>throughout the audit</u> - i.e. from the understanding and planning phases right through to the conclusion and reporting phases ("performance outcomes") - are aligned with the user perspective. Auditors are already familiar with this concept because the auditor is required to consider the perspective of users through its application of the concept of materiality in identifying and addressing potential misstatements. However, the ISAs do not require the auditor to apply this process in other aspects of the audit.</p> <p><i>Strengthening the application of professional scepticism in audits</i></p> <p>Accordingly, in order to strengthen the application of professional scepticism in audits, we believe that the IAASB should focus on developing a description of what the application of professional scepticism should look like that can be consistently understood, including embedding the concept of aligning performance outcomes with the user perspective throughout the audit. For example, considering how to require auditors to demonstrate that they have adequately considered what users would expect them to understand about the business, what areas of the business users might consider would give rise to risks of material misstatement, what matters users would expect them to challenge, how far users would expect them to go in challenging those matters, and what evidence users would expect them to obtain to satisfy those challenges. We would encourage the IAASB to address the following matters in this context:</p> <p>A. Enhance the description of what the expression of professional scepticism is expected to look like</p>
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		<p>The three examples in the definition may not be inappropriate in themselves but they are not sufficient and we believe they should be expanded to include:</p> <ul style="list-style-type: none"> • not only a questioning mind but one that robustly evaluates management's assertions; • not only being alert (a passive, neutral and reactive approach) to the potential for misstatement but remaining open minded, probing and proactive about the potential for misstatement, notwithstanding past experience and the absence of manifest indicators of that potential having been realised; • not only a critical appraisal of the evidence that management presents but also subjecting it to robust challenge through comparison with other relevant available sources of evidence whether those contradict or corroborate management's position; and • the need to reflect the perspective of the user in applying professional scepticism. <p>B. Review and improve language used in the standards to reflect the enhancements referred to in A above, to support changes in auditor behaviour</p> <p>We believe that making such changes needs to be co-ordinated with other actions to change behaviour (see C and D below) but we do not believe that simply inserting in the standards further reminders that the auditor should apply professional scepticism would be enough to support behavioural change.</p> <p>C. Require auditors to identify risks to the appropriate application of professional scepticism and to respond by identifying and implementing appropriate actions to mitigate those risks</p> <p>This should be a part of developing the quality control standards. Factors that may give rise to such risks and that we believe should be addressed in the quality control standards include:</p> <ul style="list-style-type: none"> • insufficient competence in understanding and responding to factors that may incentivise or dis-incentivise the application of professional scepticism by auditors – for example, deadlines or budget constraints and the behaviour of: those who direct, supervise and review the audit work; or management; or those charged with governance; • the impact of audit firm culture and governance and how this can support or undermine the application of professional scepticism; • insufficient competence in understanding the entity and its business and the environment in which it operates – to enable informed and independent challenge of management's assertions; and • insufficient competence in the identification of risks of material misstatement and in understanding their root causes (including the implications of change, uncertainty, ambiguity and complexity, whether in the financial reporting framework or in the entity and its business and the environment in which it operates or the system of internal control, and the conditioned and motivated behaviour of relevant individuals within the entity or its environment). <p>D. Work pro-actively with the IAESB to develop a better understanding of the behavioural competence that auditors need and how they can acquire and maintain that competence</p> <p>We recently recommended that the IAESB should consider behaviour as a separate competence area and should seek to understand behavioural influences over matters such as the appropriate application of professional scepticism and more generally how an individual's professional skills can be developed to better enable them to</p>
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		<p>self-regulate their own behaviour and to understand and influence others' behaviours.</p> <p>We recognise that understanding the user perspective may be challenging for auditors. However, the FRC's and the IAASB's auditor reporting initiatives have already made significant progress in this regard. The FRC reviews of the experience of extended auditor reporting in the UK, for example, have demonstrated that extended reporting has given users a real insight into the audit process, allowing them to better understand it, and has generated a platform for enhanced engagement between auditors and users. In the FRC's most recent review <i>Extended auditor's reports: A further review of experience</i>²⁴, for example, investors commented on areas where auditor reports could be enhanced further, giving insight into areas that are important to them. For example, sensitivity ranges used in testing; how the quality of an entity's internal controls impact significant risk assessment; the appropriateness of management estimates including assumptions made by management and benchmarks used by auditors; whether there are significant changes in their audit approach; the level of materiality they used and the assessed risks reported from one year to the next. Our reviews could therefore provide one source of input to the IAASB in taking this matter forward.</p>
National Auditing Standard Setters		
21.	AUASB	<p>The AUASB is of the view that the concept of professional scepticism (PS) is multidimensional. It would be appropriate for the IAASB to continue consideration of the findings of various academic research studies (e.g. seminal paper by Nelson (2009) or more recent synthesis of research related to auditors' professional scepticism by Hurtt, Brown-Liburd, Earley and Krishnamoorthy (2013)) which have examined this issue in greater depth and could provide valuable input when looking at the definition as used in the context of the application of ISAs. For example Nelson (2009) disentangled scepticism trait into components such as confidence, understanding and determination, while Hurtt (2010) developed a scale for measuring PS which views trait scepticism as a function of six innate individual characteristics: questioning mind, suspension of judgement, search for knowledge, interpersonal understanding, autonomy and self-esteem. The literature also distinguishes between trait scepticism (inherent within an individual) and state scepticism (sceptical judgement and sceptical action). Audit research has investigated various factors likely to influence the way PS operates in a given audit setting. These include individual traits and characteristics (e.g. experience, expertise, training, ethical/moral reasoning) as well as situational factors relating to the nature of audit evidence (e.g. confirming v. disconfirming), client characteristics (e.g. risk) and other external environmental influences (e.g. incentives). Consideration of these various aspects of PS (as a trait and state) have the potential of providing a more nuanced and relevant description of PS in audit practice.</p> <p>Feedback which the AUASB has obtained from Australian constituents, as represented at roundtables organised by the AUASB, in conjunction with CPA Australia and Chartered Accountants Australia and New Zealand, were however somewhat mixed in their perspectives on this question. Some considered that it would be helpful to clarify and modernise the definition of professional scepticism, others considered the current definition as used in the context of the ISAs to be adequate, whilst others believed that the definition needs to better focus on the personal traits of the auditor, in particular, the ability of the auditor to question and challenge management at the audit client.</p> <p>The AUASB notes stakeholder concerns that the increased regulator focus on professional scepticism may risk promoting a "checklist mentality" and that this may affect users' interpretations of the concept and asks the IAASB to be mindful of such concerns when looking at this area.</p>

²⁴ <https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Report-on-the-Second-Year-Experience-of-Extended-A.pdf>

22.	CAASB	<p>The AASB, in addition to a number of our Canadian stakeholders, were of the view that how professional skepticism is defined and referred to throughout the ISAs was consistent with their interpretation.</p> <p>One Canadian regulator however thought that the definition should be revisited. They were of the view that the definition should emphasize, to a greater extent, that the practitioner should have an underlying presumption of doubt when performing audit procedures.</p> <p>The AASB however did not agree with the regulator's view. The extant definition of professional skepticism allows for guidance on the application of professional skepticism to be included within the individual standards and appropriately applied based on the associated risks being addressed. If the definition was modified towards an attitude of presumptive doubt, this may inappropriately raise the amount of evidence practitioners must obtain to constitute sufficient appropriate audit evidence for the entire audit.</p> <p>The AASB believes that the definition, as written, is not in itself flawed, and that the real challenge in practice is its application which can be better addressed through guidance. Therefore, the AASB recommends the following enhancements be made:</p> <ul style="list-style-type: none"> • Include application guidance in each of the relevant ISAs on how professional skepticism can be demonstrated and documented, specifically within the context of the requirements of each standard. The IAASB could also consider whether non-authoritative guidance may be more suited for this purpose. Such guidance would provide an opportunity to further develop the concept of professional skepticism and its application, including examples, but allow for more limited changes to the standard. • Consider enhancing the definition itself to highlight the following additional points raised by our Canadian academic stakeholders: <ul style="list-style-type: none"> ○ Greater emphasis could be made to the fact it is a state of mind that is continuous and ongoing throughout the audit, not a consideration and conclusion reached at one specific point in time. For example, the diagram in the right margin of pg. 13 of the ITC implies that professional skepticism is applied in making professional judgments, but is only indirectly relevant to the documentation of professional judgments and related actions. Such a view, if taken to the extreme, would imply that auditors cannot document the application of professional skepticism, which is worthy of debate. ○ The definition lacks any discussion on how the practitioner needs to be skeptical of their own judgment/bias in addition to that of management (i.e., auditor bias). The IAASB could consider whether a more general reference to biases, both auditor and management, could be explicitly included in the definition.
23.	CNCC-CSOEC	<p>The concept of professional skepticism is defined by the ISA as is stated in paragraph 15 of the ITC, i.e. "An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence."</p> <p>Moreover, the way in which scepticism is linked to professional judgements and drives actions (paragraphs 24 to 27) is a useful construct. We believe that the definition of professional scepticism should include the concept of the 'right attitude' that should be applied and what is entailed by applying a 'questioning mind'. Also, the IAASB should try to understand where the barriers to professional scepticism are and identify which areas need to be enhanced further. Paragraphs 28 and the following paragraphs provide a good basis on which to build this line of thinking.</p>

24.	HKICPA	<p>We believe that PS is an attribute that is developed through experience and nurturing within a strong professional and ethical environment.</p> <p>We support IAASB's plan to emphasize the importance of professional scepticism in revising specific standards.</p> <p>With financial reporting requiring significant management judgments in critical areas such as impairment assessment relating to key items in the statement of financial position, [sic] including intangible assets with infinite lives and goodwill, valuations and going concern issues, it is important that auditors are able and be prepared to challenge assumptions made and judgments reached in the preparation of a company's financial statements. PS does not mean that the auditor should mistrust all information and representations provided by management and to take this approach would create a very difficult working relationship.</p> <p>However, a belief in the honesty and integrity of management does not relieve the auditor of the need to maintain PS or allow the auditor to be satisfied with less than persuasive audit evidence.</p>
25.	IDW	<p>Yes, our understanding is based on the extant definition and related application material. We note that the discussion in the ITC places significant emphasis on “challenge” per se as a part of professional skepticism, whereas ISA 200.A20 refers to questioning contradictory evidence. The IAASB needs to be careful not to increase public expectations and audit work effort in areas where such contradiction is not in evidence, (i.e. challenge for the sake of challenge) as ISA 500 already deals with the auditor's objective to obtain sufficient appropriate audit evidence, including inconsistency in, or doubts over reliability of, audit evidence.</p> <p>However, the definition could be more robust and, in particular, it should clarify that professional skepticism is an epistemic issue i.e., that it is always related to justification based on grounds or evidence.</p> <p>We also believe that clarification of the relationship between professional skepticism on the one hand and objectivity, independence of mind and due care on the other hand would be helpful – especially to clarify that these ethical concepts influence professional skepticism (but not the reverse, since we note that professional skepticism is currently related to evidence and misstatements in IAASB assurance engagement standards, and therefore is not applicable to other activities of professional accountants).</p>
26.	JICPA	<p>Yes. Our current interpretation of the concept of professional skepticism is consistent with how it is defined and referred to in the ISAs. With regard to the auditor's mindset on a neutral stance on the integrity of management, please see our response to PS2 below.</p>
27.	MAASB	<p>The definition: an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence is broadly appropriate. We believe the concept of a challenging mindset on the information provided by management (which may vary according to circumstances) could be more effectively incorporated into the definition as adopted in the ISAs. This would help reinforce the objective of a “critical assessment of audit evidence” that is necessary in order for the auditor to draw appropriate conclusions. It may be useful to define professional scepticism as a continuum, which varies according to the information provided, risk identified, existing controls and the audit outcomes as noted in a recent study entitled “Enhancing Auditor Professional Scepticism” undertaken by two professors in Bringham Young University.</p> <p>It is also important to focus on the application of professional scepticism on what constitutes appropriate audit evidence in different circumstances as well as concerns over documentation which is expected from auditors. We believe that actions in these areas will lead to overall level of enhanced audit quality.</p>
28.	NBA	<p>Professional Skepticism is a state of mind. At the same time professional skepticism is not a fixed construct. An auditor can act on the premise that management has integrity unless proven wrong; he can be neutral, or he can demonstrate presumptive doubt if this</p>

		<p>is required or necessary. We feel that it is up to society (stakeholders) to decide on the level of professional skepticism that the auditor should apply. By determining this level society should be aware that a more skeptical auditor might also lead to impediments to society. In the current model under the current ISAs, the entity should prove to the auditor that the financial statements are correct, the auditor should be skeptical but does not doubt the entity up front. When we shift to a state of presumptive doubt this might change, which might not do justice to the entity and to management. We would like to use a more generic example that might help to understand the shift from neutral to presumptive doubt. We wonder how society would respond when all police officers would act on the premise that all civilians probably did something wrong? Being more skeptical, than currently expected by the ISAs, will most likely also increase the cost of the audit. And last but not least, it might be necessary to increase the possibilities of auditors to investigate, and they might need legal instruments to be able to perform their duties. The ISAs should make clear which level of professional skepticism should be maintained by an auditor based on the discussions with society.</p> <p>More emphasis can be given to the application in our opinion. The definition of the concept can be improved. Guidance can be given on what professional skepticism means and how it can be demonstrated and documented. E.g. explaining how far the auditor has to go to 'seek out' all possible alternative evidence and demonstrate professional skepticism. Currently the ISAs describe the situation that the auditor may assume that documents are authentic, unless he has reason to believe the contrary.</p> <p>We believe that audit deficiencies are attributed too much to professional skepticism. Root cause analysis might indicate that there are other reasons. Poor application and/or documentation of professional judgment might also be a root cause of audit deficiencies.</p> <p>We question whether professional skepticism can be enhanced by more requirements. Professional skepticism is subject to behavioral factors and personal traits. We recommend the IAASB to consider whether this can be done in a different way. We do consider training and education to be more useful in enhancing professional skepticism. Further-more, technology can be used as a powerful tool to help the auditor in applying skepticism e.g. by using data analysis to filter exceptional situations that need to be investigated.</p> <p>We refer to our comments on Professional skepticism in the cover letter. It should be clear that professional skepticism just as independence are concepts that are based on the expectations of stakeholders which must be fulfilled by the profession. The standards should be clear on the level of professional skepticism that should be applied by the auditor.</p>
29.	NZAuASB	<p>The NZAuASB concurs with the majority view of stakeholders and its constituents that the existing definition of professional skepticism is appropriate, and that the application of professional skepticism is not a matter that can be best addressed through the expansion or development of the IAASB's standards. The NZAuASB is strongly of the view that the application of professional skepticism is one that goes to the heart of the challenge to the maintenance of audit quality, but can only be effectively enhanced through high quality education that encourages and develops the mind-set of the auditor. A focus on training auditors to demonstrate higher levels of professional skepticism will provide a better avenue for improving the application of the concept in practice. Audit standard setting and additional guidance is unlikely to be effective, on their own or in isolation unless these measures are complemented by appropriate training and education. The NZAuASB points to the training programme developed by Chartered Accountants in Australia and New Zealand (demonstrated at last year's NSS meeting) as a tangible example of how best to address the underlying challenge of ensuring auditors are demonstrating appropriate levels of professional skepticism in the performance of their audit responsibilities.</p> <p>The NZAuASB considers there is scope for further guidance to improve the application/ evidencing and/or documentation of professional judgement. The NZAuASB considers that the diagram on page 13 of the ITC very aptly illustrates how professional skepticism drives action and how the documentation of professional judgements made, and actions taken, may provide evidence</p>

		<p>that professional scepticism was applied. Further guidance on how to better document the auditors' thought processes, various scenarios considered etc. when dealing with highly judgemental matters may better demonstrate the application of professional scepticism to regulators and may also encourage auditors to better apply professional scepticism. The IAASB should remain mindful that the primary purpose of enhancing the nature and extent of documentation should focus on improving audit quality, rather than the implementation of requirements that may be perceived as being for the primary benefit of the Regulator.</p> <p>The NZAuASB concurs with the majority view of participants at the roundtables that the definition of professional scepticism is appropriate, and that it is more the application, evidencing and/or documentation of professional scepticism that is the bigger issue.</p>
Accounting Firms		
30.	BDO	<p>Our interpretation of the concept of professional skepticism is broadly consistent with how it is defined and referred to in the ISAs. We have the following additional matters for the IAASB to consider :</p> <ul style="list-style-type: none"> • We believe it should be clear that professional skepticism should be applied during <i>all</i> stages of the engagement. • The IAASB could align the concept with the work of the other Standard-Setting Boards (SSBs) – for instance reflecting the educational and ethical dimensions of professional skepticism having its roots in the development of integrity and maintenance of objectivity. • A major challenge for the IAASB (and IFAC) – and this may be something that the current Joint Working Group on Professional Skepticism is currently considering – is how the interpretation of professional skepticism can be applied to all professional accountants, but appropriately tailored to those performing an audit role. We note that the International Education Standards (IES)³ use a modified definition of professional skepticism compared to the audit-focused version used by the IAASB. • Fundamental to our interpretation of professional skepticism is the need to recognize the necessary personal traits that translate the 'questioning mind' into observable action. While the ITC confines professional skepticism to an attitude that provides a basis for auditors' actions, the ability to act is paramount to protection of the public interest. We suggest that the definition include a reference to this need and ability to act. • The factors and personal traits that contribute to 'professional' skepticism may often be overlooked – and might include issues around those personal traits identified in the Hurtt Scale of professional skepticism. The scale identified six potential personality traits⁴ which contributed to different outcomes in the measurement of professional skepticism. In addition, when interpreting what it means to demonstrate professional skepticism it should be clear that an auditor performing an audit of financial statements is not a forensic auditor solely looking for fraud or inappropriate behavior. Other factors that may affect how professional skepticism is exercised could include: <ul style="list-style-type: none"> ○ learned skills (for example, education and experience skills acquired through on the job training, personal specialization or practical application of knowledge); and

³ International Education Standards as prescribed by the International Accounting Education Standards Board (IAESB)

⁴ Professor Kathy Hurtt, Development of a Scale to Measure Professional Skepticism," Auditing: A Journal of Practice and Theory (May 2010) hypothesized that there were 6 personality types which include: questioning mind, suspension of judgment, search for knowledge, interpersonal understanding, self-esteem and autonomy.

		<ul style="list-style-type: none"> ○ incentives (for example, emphasis on professional skepticism in performance evaluations, an open firm culture and internal monitoring to reinforce expectations). • Our interpretation also reflects the importance attached to cultural dynamics that operate in an audit firm, audit sector group or engagement team. An engagement team (particularly influenced by members at the engagement partner and more experienced levels) may have its own collective culture or attitude towards professional skepticism that may have a direct impact on the professional skepticism exhibited by any one individual (i.e., the ‘groupthink’ factor). The IAASB, through its Standards, may also want to consider the impact of different national or regional culture that may impact the effective application of professional skepticism. Examples of this might include: <ul style="list-style-type: none"> ○ a reluctance to challenge other individuals because of perceptions about demonstrating a lack of respect; and ○ deference to more senior colleagues or client management. <p>Having a questioning mind may mean different things for each individual due to their natural tendencies towards faith and trust in others (whether colleagues or client management). Perhaps the definition should reflect a ‘measured attitude’ to imply that an individual’s attitude can be measured against the expectations under the ISAs.</p>
31.	CHI	<p>Yes.</p> <p>“Professional scepticism” is not easy to define or explain. The presentation in ISAs is a reasonable effort and we do not see the need to change it.</p>
32.	DTT	<p>DTTL believes the “professional skepticism” concept as articulated in the ISAs - being defined as “an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence” provides an appropriate overarching concept. Furthermore, when this concept is considered alongside the IAASB Framework for Audit Quality, and the Staff Questions and Answers Paper – Professional Skepticism in the Audit of Financial Statements DTTL believes that sufficient high level guidance is available to enable both auditors and other stakeholders to understand the concept. If enhancements to the definition are considered, elaboration of the “professional” element of professional skepticism would add more focus (e.g., incorporating what constitutes being “professional” which in part is the integration of qualifications, experience, and understanding of the business in its market and environment to have a rational basis for determining what is not right).</p> <p>While, as noted in paragraph 18 of the ITC, early inspection findings were directly attributed to a lack of professional skepticism. DTTL believes that both audit firms and regulators have advanced their thinking from attributing quality weaknesses to the overarching concept of “lack of professional skepticism” to a more precise analysis focused on more granular causal factors. DTTL believes, therefore, that any future references to professional skepticism in the ISAs should not be broad but rather be focused on consideration of specific matters evidencing skepticism when making defined professional judgments during the audit process.</p> <p>In addition, the exercise of professional skepticism is closely interconnected with the application of professional judgment. In this regard, the IAASB may consider how to incorporate best practices with respect to professional judgment into guidance related to exercising professional skepticism. In practice, many firms have developed frameworks for applying professional judgment, and incorporating something similar into the ISAs might be appropriate.</p>
33.	EYG	<p>We believe that improvements could be made, in some combination, to the definition, descriptions and references to professional skepticism throughout the ISAs.</p>

	<p>Because the definition of professional skepticism in the ISAs is focused on the “attitude” of the auditor, it is inherently difficult for auditors to understand how an “attitude” affects the process of the audit, which in turn makes it difficult for auditors to demonstrate through their audit documentation how professional skepticism has been applied. Further, the ISAs are not descriptive as to <u>how</u> professional skepticism may be applied in the specific circumstances in the ISAs in which it is specifically mentioned or referenced.</p> <p>Our view of professional skepticism and how it is applied in an audit is as follows:</p> <ul style="list-style-type: none"> ▶ The application of professional skepticism starts at the account assertion level in performing the risk assessment for each assertion. Informed by the risk assessments, the auditor applies a methodical approach to obtain sufficient appropriate audit evidence that either confirms or refutes the assertions made by management. We do not believe that professional skepticism is about inherent disbelief or distrust in management’s assertions; rather we believe it involves the process or method of obtaining evidence, applying reason and critical thinking in an unbiased manner to determine the validity of the assertions. ▶ At its simplest, this methodical approach involves designing and performing audit procedures, but we think the audit could actually be viewed as an application of the scientific method, which involves an orderly and rational investigation to determine the validity of a hypothesis (i.e., in an audit, the “hypothesis” consists of management’s assertions and the “investigation” is the auditor’s gathering and evaluation of audit evidence). If auditors view the process of the audit in this manner, this could help in identifying and overcoming biases. ▶ Further, it seems that the scientific method can be viewed as a “professional application of skepticism” in that skepticism plays a critical role in determining the data to gather, in evaluating the data gathered and in making judgments about whether that data proves or disproves the hypothesis. In essence, an audit requires this same “professional application of skepticism” beginning with the risk assessment and design of audit procedures, but especially in determining whether the outcome of those procedures provides sufficient appropriate audit evidence, and, if not, what additional procedures or evidence are necessary in order to form a conclusion on the validity of management’s assertions. <p>We believe that both “sufficient” and “appropriate” in the context of audit evidence are the objectives and outcome measures for the auditor’s application of professional skepticism to the evaluation of the assertions made by management. Further, when measuring whether audit evidence is both sufficient and appropriate, this includes consideration of the evidence that not only corroborates management’s assertions, but also evidence that may be contrary to those assertions, in order to determine whether the relative nature and weight of the evidence obtained supports management’s assertions. The audit documentation constitutes support for the auditor’s conclusion that the audit evidence obtained is both sufficient and appropriate, which is very much aligned with the objectives of ISA 230, Audit Documentation.</p> <p>However, as noted in the ITC, the application of professional skepticism is not consistently and clearly demonstrated in audit documentation. In our view, there is an opportunity for the IAASB to enhance audit quality by considering how the ISAs (or other guidance) can better assist the auditor’s judgment of whether “sufficient” and “appropriate” audit evidence has been obtained. We believe this could be the underlying cause of the auditor applying (or not applying) appropriate professional skepticism.</p> <p>Guidance improvements could involve an evaluation of whether the definition of professional skepticism warrants enhancement, but we believe further evaluation is needed extending into the ISAs themselves, especially at the particular points in the audit process that involve more complex auditor judgments. That said, we do not believe that the application of professional skepticism is limited to only complex auditor judgments; it is inherent in all auditor judgments but the extent to which professional skepticism is applied is to be scaled up or down depending on the significance and sensitivity of the assertions made by management.</p>
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		<p>We agree that the concept of professional skepticism is interconnected with the concept of professional judgment (as demonstrated by the diagram on page 13 of the ITC) and we support the IAASB exploring enhanced guidance to facilitate auditor judgments and the documentation of those judgments. However, we believe more may be needed; specifically, a judgment framework is useful to apply to individual judgments but it does not provide a complete perspective of how professional skepticism contributes to and underpins the audit process as a whole. For this reason, we believe it may be useful to explore a professional skepticism framework (of which a judgment framework may be an important component) that demonstrates the process of application throughout the audit.</p> <p>Regardless of whether the IAASB determines a framework is appropriate or another action should be taken such as increasing guidance about professional skepticism, it is most important that any new framework or guidance be “brought to life” through the ISAs in order to resonate with auditors and stimulate the behavioral improvements that the IAASB is seeking. We see the benefits of an approach that would involve the IAASB investing in a specific framework or guidance on professional skepticism that can exist alongside the ISAs, which can then provide a common point of reference for the individual ISAs (or certain requirements within them) such that the guidance in the ISAs can articulate the applicability and use of the professional skepticism framework in particular contexts. We believe that focus should also be given to how auditors document their application of the concepts in the professional skepticism framework (or other guidance) in executing any ISA requirements for which demonstration of appropriate professional skepticism is especially important.</p>
34.	GTI	<p>We believe that the definition of professional skepticism in the ISAs does not contain all the relevant elements and it would be appropriate to consider a revision of the definition of professional skepticism to provide greater clarity to practitioners before considering if changes to the ISAs are required. This could include application material to the definition that explicitly recognizes personal biases. The definition is inconsistently understood, making it difficult to apply in practice. We note that inspection findings often indicate that a lack of professional skepticism contributed to the deficiency but that it could have been manifested in several different ways. Clarity around the definition and better insight into the nature of the deficiencies would be meaningful in driving audit quality. Further, we believe that there needs to be a consistent definition of the term across all of the standard setters (IAASB, IESB and IESBA).</p>
35.	KPMG	<p>The IAASB Glossary of Terms definition of Professional Skepticism currently describes this as an “attitude, including a questioning mind”. We are supportive of this description, and do not consider that the definition itself should be amended, although we consider that, as a fundamental mindset, which requires the exercise of significant professional judgement, the concept is somewhat elusive and this can result in difficulties in its application. Accordingly, we welcome the IAASB’s considerations in this area, to attempt to clarify the meaning of “professional skepticism” and to help auditors and others both to apply this in practice and to demonstrate that they have applied the concept appropriately.</p>
36.	PwC	<p>Broadly yes. The definition: An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence, reflects the key elements necessary in the application of professional scepticism.</p> <p>In applying a questioning mind, the auditor needs to consider the quality, relevance and reliability of the audit evidence obtained. This includes consideration of alternative evidence that may contradict evidence provided by management.</p> <p>This concept of a questioning mindset could be more effectively incorporated into the definition as adopted in the ISAs, which would help reinforce the objective of a “critical assessment of audit evidence”.</p>

		<p>As noted in our response to question G1, we think it is important to distinguish between questions over the appropriate application of professional scepticism and questions about what constitutes sufficient appropriate audit evidence in different circumstances, or concerns over the sufficiency of audit documentation in evidencing the scepticism that was applied by the auditor. Where questions more directly relate to these other issues, in particular then we support and encourage the IAASB to have those debates and explore the underlying issues, which will help eliminate areas of differing interpretation and lead to overall enhanced audit quality.</p> <p>As noted in the November 2013 academic paper: Enhancing Auditor Professional Skepticism, commissioned by the Global Public Policy Committee (GPPC), (hereafter referred to as the “GPPC paper”), the absence of clear direction and practical application guidance on what behaviours and actions constitute appropriate professional scepticism across a range of risk scenarios for different assertions and accounts leads to different views, applications, and opinions. We therefore support the proposal in the GPPC paper highlighting the benefits that may accrue from the establishment of a professional scepticism continuum that acknowledges that the appropriate application of professional scepticism will depend on the risk characteristics of the account and assertion. We support the recognition of this concept in the ISAs, including incorporating the factors described in the GPPC paper that would lead to the need for less or more audit evidence. We comment further on this topic in response to question PS2 below.</p>
37.	RBI	--
38.	RSM	<p>The term Professional Skepticism focuses too strongly on an internal attitude of mind that does not adequately express the need for action. We consider that there should be more focus on behavioral aspects of this process applying the following broad definitions to assess the claims, opinions or beliefs made by management or evident in the financial reporting process, as follows:</p> <ol style="list-style-type: none"> 1) Professional Skepticism (Attitudes) – A questioning attitude to a claim, opinions or beliefs reported by management during the audit 2) Professional Enquiry (Behaviors) – An ability to enquire for confirming or disconfirming evidence relating to those claims, opinions or beliefs 3) Professional Judgment (Judgments) – An ability to make considered decisions or to come to sensible conclusions by a process of assessing the claims, opinions or beliefs in the light of the evidence obtained <p>An attitude of Professional Skepticism is an internal way of thinking or feeling that is acquired slowly and progressively, and is more difficult for individuals to modify. Focus should therefore be placed on this aspect in recruitment, examinations and candidate assessment.</p> <p>The concept of “Professional Enquiry” should be considered more prominently in this consultation process in the context of both Professional Skepticism and Professional Judgment. Such a behavior is an external way of behaving that is possibly more easily modified than an attitude. A person with a skeptical attitude can be given the tools, resources and motivation to act in the public interest as expected of them. The techniques used to obtain and assess inconsistencies with evidence are described most prominently in ISA 500 Audit Evidence and ISA 580 Written Representations, but neither of these ISAs adequately deal with the behavioral aspects that are partially described in the ITC. Adding prominence to the behavioral aspects of enquiry will enhance the demonstration of the application of Professional Skepticism in the audit process because the auditor will be encouraged to document the results of their enquiries.</p>
39.	SRA	In our view there is definitely no need to reinforce the concept of professional skepticism. We therefore do not subscribe to the starting point of the ITC, namely that the concept should be reinforced. Acknowledging the vital importance of a quality audit, we are

		convinced that the fundamental principles, included in the Code of Ethics, and the standards, applicable to the audit of historical financial information, already adequately cover this concept. In this regard it should be born in mind that both the Code and the standards apply to all audits, including audits of SMP's. It is in our view therefore superfluous to further define the concept and to reinforce it. For example: if audit information is inconsistent the principle of due care and the relevant audit standards require additional audit work, depending on the factual circumstances, in order to resolve the issue.
Public Sector Organizations		
40.	AGC	Our interpretation of the concept of professional skepticism is consistent with how it is defined and referred to in the ISAs. We hold the view that individual firms have a significant role to play in establishing and supporting a culture of appropriate skepticism and that <u>training, coaching and supervision</u> play a very important role in ensuring its application.
41.	AGSA	<p>Our interpretation of professional scepticism is consistent with the definition. However, our understanding is that professional scepticism requires more of the auditor than just to maintain an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. It imposes certain responsibilities/ obligations on the auditor in order for the auditor to demonstrate that he/she maintained professional scepticism during the audit. These responsibilities /obligations would include complying with the fundamental principles of integrity, objectivity, professional competence and due care. Furthermore, the auditor would need to be independent in mind.</p> <p>For example, the definition as well as application and other explanatory material does not indicate these obligations which may result in the auditor not realising that the following would be considered lack of professional scepticisms:</p> <ul style="list-style-type: none"> • Failing to obtain sufficient audit evidence beyond inquiry of management. • Performing insufficient procedure and relying of calculations performed by management without verifying the underlying data. • Insufficient direction of the work by the engagement manager. • Auditors not acting diligently in accordance with applicable technical and professional standards. <p>Furthermore the definition as well as the application and other explanatory material does not clearly indicate the professional scepticisms also closely related to applying professional judgment during the audit. Appropriate application of professional judgement requires the auditor to have relevant training, knowledge and experience to make an informed decision. The auditors may not understand this relationship between the two concepts. The auditor may also not realise that he/she would not be able to demonstrate appropriately applying professional scepticisms without the appropriate knowledge and skill. This concept requires adequate direction and review by the engagement partner.</p> <p>The concept could be better described by linking it to the fundamental principles and independence of mind requirement as well as including the element of applying professional judgement. Furthermore, the IAASB should include the documentation requirements to demonstrate this concept. The abovementioned issues could also be addressed in the application and other explanatory material sections of the ISAs.</p>
42.	GAO	Our interpretation of the concept of professional skepticism is consistent with how it is defined and referred to in the International Standards of Auditing (ISA). However, we believe that professional skepticism can be applied on a continuum, where the nature, timing, and extent of related audit procedures are determined by the risk level of the area of the audit, as described by Glover and

		Prawitt's report, Enhancing Auditor Professional Skepticism. For example, the auditor should search for conflicting evidence in higher risk areas, such as significant judgements.
43.	INTOSAI	<p>FAS' interpretation of the overall theoretical concept of professional skepticism is consistent with how it is defined and referred to in the ISAs. Though we believe that the concept could be further clarified by:</p> <ul style="list-style-type: none"> • Describing the linkage between the ISAs and the other standards (to demonstrate the complexity of professional skepticism but also indicate potential drivers for not applying professional skepticism). This description could be included in the ISAs and preferably in ISA 200 and/or 220. • More explicitly indicating that lack of skepticism can either be the result of a failure in problem recognition (lack of skeptical judgment) or a failure to act on a problem recognized (lack of skeptical action) as this distinction might be helpful when discussing drivers and actions • How professional skepticism affects the whole audit process/flow <p>The concept itself needs to be further developed into actions, where possible, and we believe that several of the suggested improvements to the ISAs and areas to be explored in the ITC will be a step forward, and at least bring some more clarity on the understating of the drivers but also how to ensure proper actions and documentation.</p> <p>The figure "how professional skepticism drives action" is very helpful and might be used as a future model for describing how professional skepticism is addressed in the ISAs and how it could be applied. We believe that a better understanding of the concept would improve the applicability.</p>
Preparers of Financial Statements		
44.	PAIB	<ul style="list-style-type: none"> • We agree that it is important to explore what can be done to re-emphasize the importance of professional skepticism in audits of financial statements. The 2012 IAASB staff Q&A on professional skepticism provides a good basis for providing additional thinking and clarification of the ISAs and starts to provide additional information outside of standards that is more accessible and useful. • The ISAs do not address at what point the application of professional skepticism becomes unprofessional or unacceptable. One way of looking at the application of professional skepticism is as a continuum between complete distrust and complete trust. In different situations and scenarios, it is necessary for the auditor to find the right spot along that continuum. • It has been suggested that the level of professional skepticism applied could be distinguished on the basis of the source of client information. It would seem reasonable to also include a discussion of different levels of skepticism that can be applied, for example, when the auditor is dealing with a professional accountant in business who adheres to the same code of ethics as the auditor (such as the <i>Code of Ethics for Professional Accountants</i>). We recognize that the Public Interest Oversight Board noted in its discussions that "professional skepticism, as a state of the mind and attitude, should govern the performance of auditors, and inspire the attitude of other accountants, e.g., accountants in business. When accountants (practitioners, non-practitioners, accountants in business) do not display proper professional skepticism it is recognized as a barrier to effective performance." However, this perspective does not recognize that it is necessary to distinguish between those accountants in business who are members of the profession and adhere to common ethical standards and those accountants in business who do not follow a specific code of ethics and/or are not members of an IFAC member organization.

		<ul style="list-style-type: none"> The concept of professional skepticism is difficult to apply consistently given it is behavioral and based on a state of mind. Therefore, it is difficult to ascertain when it has been appropriately applied or not, and how much is enough. ISA 230, <i>Audit Documentation</i>, takes an effective approach by requiring the auditor to prepare sufficient audit documentation to enable an experienced auditor, having no previous connection with the audit, to understand the critical decisions made regarding key matters arising during the audit, the conclusions reached thereon, and significant judgments made in reaching those conclusions. Although an auditor's documentation cannot fully capture how the auditor applied professional skepticism throughout the audit, it is important in demonstrating significant judgments. Ultimately, the ability to express professional skepticism and judgment will be determined by the education, training, and experience of auditors. As recognized in the ITC, this has implications for the International Education Standards and the education and training provided by professional accountancy organizations. Providing guidance rather than additional, or amended, ISAs might be the best mechanism to help auditors apply professional skepticism. Guidance could include examples, scenarios, and/or case studies to bring the definition to life and help auditors apply it. In considering next steps, the objective of standard setting should be kept in mind. While regulators might seek standards that allow them to assess compliance with ISAs, audit professionals might require and seek practical guidance that cannot be easily incorporated into the standards. Encouraging healthy professional skepticism requires moving beyond a box-ticking approach, and might not be fulfilled by adding more to the ISAs.
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>Our interpretation of the concept of professional scepticism is consistent with how it is defined and referred to in the ISAs. However, we find that some audit oversight bodies are sometimes perceived to use professional scepticism as a 'catch all' for areas of an audit where, with hindsight, more audit fieldwork could have been done, rather than providing a more targeted observation that explains how following ISAs would have produced better outcomes. As a result, we would welcome some clarification over how professional scepticism should be practised and documented, to help auditors to better understand what is expected of them, perhaps by reference to the application material in ISA 200 (ISA 200.A18 – ISA 200.A22).</p> <p>The IAASB could also consider developing a framework for auditors to demonstrate the process they follow in arriving at their professional judgement. Such a framework could be linked to wider audit quality, including the proposed Quality Management Approach.</p>
47.	AIC	To our knowledge the concept of professional skepticism used in the query is consistent with the definition used in the ISAs, specifically ISA 200.
48.	AICPA	We support the IAASB's efforts to reinforce the concept of professional skepticism in current projects around quality control, group audits, and auditing accounting estimates. Specifically, we believe it would be helpful for the revised application material in these projects to provide guidance on obtaining and documenting audit evidence in a way that demonstrates the appropriate application of professional skepticism. However, in the long-term, we believe fundamental improvements need to be made to the definition of professional skepticism and related application material.

	<p>In the 2013 monograph, <i>Enhancing Auditor Professional Skepticism</i>, published by the Global Public Policy Committee (hereafter, 2013 GPPC monograph), the committee chairs stated, “The term professional skepticism is widely used but may mean different things to different organizations and individuals.”¹ There is a lack of common understanding regarding what professional skepticism is and how it should be applied and documented. We believe that the lack of common understanding has led to the inconsistent application of professional skepticism, which is affecting overall audit quality and contributing to the level of inspection deficiencies. We believe that a more complete and practical definition of professional skepticism, combined with application material in the International Standards on Auditing (ISAs), can fill an important void that currently exists in the professional literature regarding a common understanding of the proper application of professional skepticism. We do not believe auditor performance or a collective understanding will improve if the IAASB simply adds more words in the ISAs emphasizing the need for auditors to be skeptical without providing a clearer definition and practical application of professional skepticism.</p> <p>In the long-term, we support the inclusion in the standards of a professional skepticism framework, which would help answer important questions such as:</p> <ul style="list-style-type: none"> • What is professional skepticism and what does it involve? • Are there varying levels of skepticism and if so what factors indicate the need for heightened professional skepticism? • How does the auditor appropriately respond when more skepticism is warranted (including in situations of higher levels of assessed risk or situations where the evaluation of evidence indicates the initial risk assessment may not have been accurate)? • What actions demonstrate the appropriate application of professional skepticism? • How does the application of professional skepticism relate to the nature, timing, and extent of audit procedures used to obtain sufficient appropriate audit evidence? • How is skepticism appropriately evidenced or documented in the working papers? <p>We recognize that improvement in the application of professional skepticism in practice will take more than just revisions to the auditing standards, and we commend the efforts of the IAASB to engage with other stakeholders. We believe that those efforts combined with feedback from the ITC will provide the IAASB with sufficient information and understanding to take the necessary and important foundational steps to improve the definition of, and application material associated with, professional skepticism. By doing so, the IAASB will provide a clarified and common understanding of professional skepticism that other stakeholders such as the National Standard Setters, the International Accounting Education Standards Board, the International Ethics Standards Board for Accountants, accounting firms, regulators, inspectors, and users of financial information can build upon. We also believe the insights gained in this process can be shared with academics to identify opportunities for future research and to enhance curricula around skepticism.</p> <p>While the long-standing ISA definition of professional skepticism contains important and necessary concepts, the definition is vague and ambiguous, leaving it open to different interpretations by various stakeholders as to what it is and whether the level of professional skepticism should be held constant throughout the audit and across audit areas regardless of the risk of material misstatement.</p>
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¹ <http://www.thecaq.org/docs/research/skepticismreport.pdf>

	<p>In situations where a regulator in an inspection identified insufficient professional skepticism as a finding, it is not always clear whether the auditor:</p> <ol style="list-style-type: none"> actually did lack skepticism, which led to insufficient evidence and documentation; had an appropriately skeptical attitude but it did not lead to an appropriate response; had an appropriately skeptical attitude and took the proper actions, but failed to adequately document the actions; or applied proper skepticism, took appropriate action given the facts and circumstances, properly documented the findings in compliance with the ISAs, but the inspector's assessment was different due to hindsight/outcome bias or due to the inspector applying a different interpretation of how skepticism should be applied and documented. <p>It is often difficult to answer these questions because there is not a common understanding of professional skepticism or its application.</p> <p>We believe standards should reflect that the proper application of professional skepticism is <i>more than an attitude</i>—it also involves, when appropriate and in combination with professional judgment, action, a critical evaluation of audit evidence, and documentation that tells the story of how professional skepticism was applied.⁴ Recent academic research suggests that measures reflecting professional skepticism include actions regarding the nature, timing and extent of audit procedures.⁵ After an audit is complete, others wanting to evaluate the application of professional skepticism may determine whether sufficient appropriate evidence was obtained and whether professional skepticism was appropriately applied—meaning the evaluators are looking for an observable audit response. When there is a lack of appropriate response to risks and/or insufficient evidence documented in the work papers, the auditor is often deemed to have lacked sufficient professional skepticism. In re-defining professional skepticism and in revising application material, we think it is important to reach a common understanding of professional skepticism with other stakeholders, including regulators and inspectors.</p> <p>The figure on page 13 of the ITC depicts a linear model starting with “Professional skepticism is an attitude.” However, we suggest that three concepts (professional skepticism, risk assessment, and professional judgment) jointly lead to action. For example, as the risk of, and opportunity for, management reporting bias increases, there should be heightened professional skepticism and heightened skeptical action. As audit evidence is obtained from an action, professional skepticism and professional judgment again come into play in evaluating and interpreting the evidence and in determining whether additional action is required. Thus, the joint applications of professional skepticism, judgment, risk assessment, and evidence evaluation involve an ongoing and iterative process until sufficient appropriate audit evidence has been obtained and documented. The iterative nature of these processes may need to be recognized in a revised definition of professional skepticism. Therefore, we recommend the IAASB consider specifically addressing in ISA 500, <i>Audit Evidence</i>, the correlation between sufficient appropriate audit evidence and the proper application of professional skepticism.</p> <p>Furthermore, in the standards there is a lack of clarity as to circumstances when it would be appropriate to apply more or less skepticism, and how those applications would differ in terms of action and documentation. While an attitude of a questioning mind</p>
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⁴ While the concept of “a critical assessment of audit evidence” may imply an action and related documentation, in practice the definition of professional skepticism is often abbreviated to just the first components of *attitude* and *questioning mind*. This is illustrated in paragraph 26 of the ITC where it states, “*While professional skepticism is an attitude...*” Similarly the first box in the figure on page 13 of the ITC indicates, “*Professional skepticism is an attitude.*”

⁵ See “The Way Forward on Professional Skepticism: Conceptualizing Professional Skepticism as an Attitude” (Nolder and Kadous 2014, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2524573)

	<p>should always be present, it seems the evaluation and discussion of skepticism as it currently stands is often in a binary context—either it was appropriately “on” or inappropriately “off.” Current auditing literature suggests that there are aspects of an audit where professional skepticism is <i>especially important</i> and <i>particularly relevant</i>. If there are areas or situations where it is especially important or particularly relevant to apply professional skepticism, then it is logical that there are areas where it may be less important or relevant. Therefore, we encourage the IAASB to carefully address questions such as: Why is professional skepticism more important in areas that are judgmental or subjective, or in areas where the validity of evidence provided by management is questionable? What are the specific factors that make professional skepticism more important in these areas and less important in others and does this imply different levels of professional skepticism? In areas where auditors may be less skeptical, what circumstances (such as unexpected errors or falsification of documents) may cause the auditor to revise his/her thinking to heighten skepticism? The 2013 GPPC monograph suggests that there is a professional skepticism continuum where the appropriate application of professional skepticism in a particular area depends on the risk of material misstatement.</p> <p>We think that without specifically acknowledging a continuum of professional skepticism, the profession will continue to observe execution errors that may be deemed to be caused by a lack of professional skepticism. Importantly, academic research indicates there are instances when regulatory inspectors interpret the evidence and documentation required to demonstrate the appropriate application of professional skepticism required by standards differently than do engagement teams.⁶ For example, in lower risk situations, if inspectors expect a heightened level of professional skepticism and action, as evidenced by the level of testing and other audit documentation, it could lead to unnecessary cost and “inspection risk” that could ultimately lower audit quality.⁷ Yet, under the current vague definition of professional skepticism in the ISAs, it is apparently not clear to inspectors what the appropriate level of professional skepticism is across the risk continuum. We believe that the lack of common understanding and practical application material around professional skepticism is contributing to misunderstandings on how to properly apply professional skepticism and to disagreements on what constitutes a skepticism inspection deficiency.</p> <p>We encourage the IAASB to consider the following specific improvements (the first three points represent long-term improvements, while the last recommendations can be applied in the short-term):</p> <ul style="list-style-type: none"> • Redefine professional skepticism to include <i>more</i> than a questioning mindset or attitude. • Incorporate the logic of a skepticism continuum that links higher levels of risk of material misstatement to more skeptical mindset and skeptical actions. The continuum would recognize that it is always important to have a questioning mind, but would clarify when the auditor should apply more or less of a challenging mindset and skeptical action. • Adopt a framework for professional judgment and professional skepticism (based on a continuum) into the standards to assist auditors follow a rigorous process to consistently and appropriately apply professional judgment and skepticism. The goals of basic frameworks are to provide a common vocabulary and understanding of how important concepts are applied
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⁶ See for example, *Mind the Gap: Why do Experts Disagree on the Sufficiency of Audit Evidence Supporting Complex Fair Value Measurement?* (Glover, Taylor, Wu 2015; <http://ssrn.com/abstract=2504521>).

⁷ “Inspection risk” refers to settings where regulatory inspectors focus is not properly aligned with relevant audit risks. As auditors expend effort to manage inspection risk in areas that are not sufficiently correlated with risk of material misstatement it may draw attention away from areas that present greater audit risk. See the 2013 GPPC monograph and Glover, Taylor, Wu (2015; <http://ssrn.com/abstract=2504521>).

		<p>in practice and documented in the work papers. The common vocabulary and processes can then be used in training, coaching, and evaluation of auditor performance.⁸</p> <ul style="list-style-type: none"> Improve application material to illustrate techniques associated with the proper application of professional skepticism in various circumstances and assertions. These may include illustrations of areas of heightened risk where the actions, evidence gathered, and documentation demonstrate the appropriate application of professional skepticism (for example, actions that challenge management's assumptions, evaluation of potentially disconfirming information, actions and evidence that might come from proactively "making the opposing case," see the 2013 GPPC monograph for other examples). In areas or aspects of the audit where higher risk should lead to heightened professional skepticism, the IAASB should consider revising the wording in auditing standards to move beyond <i>confirming</i> management's assertions to acknowledge instances when auditors should <i>challenge</i> management's assertions and take skeptical action.⁹ With respect to the auditor's consideration of the effect of contrary evidence, we caution that the IAASB not to set an expectation that the auditor always needs to actively search for contrary evidence as part of developing an audit response. <p>We believe that a more complete and practical definition of professional skepticism along with enhanced application material will lead to an improved common understanding of the appropriate application of professional skepticism, which will help reduce the instances of insufficient professional skepticism in fact as well as false positives in inspection results.</p>
49.	APESB	--
50.	CAANZ	<p>We consider the definition of professional skepticism included within the ISAs¹⁰ is appropriate. As professional skepticism is defined as an attitude, its application is subjective. There can be, and are, a range of interpretations on what constitutes an <i>appropriate</i> level of professional skepticism, and what demonstrates sufficient appropriate evidence that professional skepticism has been applied.</p> <p>Achieving a level of consistency in application across jurisdictions and across sectors would be enhanced by (1) focusing on clarity and alignment when describing scepticism in the ISAs, (2) practical application guidance which demonstrates the application of professional skepticism in specific circumstances, and (3) an indication of how this could be evidenced in the audit file.</p> <p>In addition, the concept of professional skepticism referred to throughout the ISAs could be better aligned with related concepts in the International Ethics Standards (IES's) and International Accounting Education Standards (IAES's). For example, the IESBA Code includes five fundamental principles; integrity, objectivity, professional competence and due care and professional behaviour. While professional skepticism is closely related to the objectivity and professional competence concepts, the link between these concepts has not been explained in the international standards. It may, therefore, be useful to provide guidance on the relationship between</p>

⁸ See a discussion of, and references to, judgment frameworks in the 2013 GPPC monograph. See also a professional judgment framework in a 2012 COSO monograph, "Enhancing Board Oversight: Avoiding Judgment Traps and Biases." Both of these monographs also discuss some of the most important traps and biases that can impede the appropriate application of professional skepticism and judgment.

⁹ Academic research suggests that revised wording in the standards can change the auditor's "judgment frame" (i.e., confirming vs. challenging) and lead to more skeptical actions. In addition to changing the "framing" of wording, standards could in some cases require auditors to document their consideration of alternative explanations (e.g., similar to the opposing case considerations in a going concern assessment) and the evidence collected and evaluated to rule out these alternatives. See Maksymov, Nelson and Kinney, 2016, forthcoming *The Accounting Review, Effects of Procedure Frame, Procedure Verifiability, and Audit Efficiency Pressure on Planning Audits of Fair Values* (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2066160).

¹⁰ "An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence". ISA 200, Para. 13(l)

	<p>these concepts. Consistent use of terminology across the IAS's, IES's and IAES's would assist consistent understanding and application.</p> <p>It would also be valuable to explicitly link the concept of professional skepticism with the closely related concept of professional judgment. The diagram on page 13 of the ITC describing the relationship between professional skepticism and professional judgment is useful in helping to succinctly explain the linkage between these concepts. Promotion of the diagram may help to develop a common understanding of these concepts amongst broader stakeholders.</p> <p>Another concept that would be useful to clarify is the concept of '<i>corroboration</i>'. Corroboration encourages auditors to adopt an understanding mind-set, rather than one of challenge. It would be beneficial to emphasise the need for auditors to maintain a questioning mind-set, and in some circumstances, consider the opposing case or seek evidence that does not support management's assertions. These circumstances may be dictated by the use of the continuum referenced below.</p> <p>Further explanation of some of the key terms used in the definition of professional skepticism would also be useful. For example, paragraph A20 of ISA 200, which provides a brief description of what is meant by a critical assessment of audit evidence, could be expanded.</p> <p>For the areas raised above, we do not support additional mandatory requirements, nor do we propose that every standard be reopened to include a professional skepticism reference. Rather we recommend more specifically articulated guidance in ISA 200 and work with other standard setters on consistency of language and options for joint communications or activities.</p> <p>We have developed two important tools to specifically assist auditors in interpreting and applying the concept of professional skepticism:</p> <ul style="list-style-type: none"> • A professional skepticism online training programme¹¹ that explores inherent cognitive biases and delves into the thinking processes underpinning judgment and challenges auditors to avoid judgment traps. This online tool is designed for senior practitioners who lead audit teams. It provides these auditors with a score based on their responses to scenario based questions. It focuses on the important role of promoting professional skepticism within the audit team through on-the-job coaching, and role models the appropriate application of professional skepticism in different audit scenarios. This brings the application of an appropriate attitude throughout all phases of an audit engagement front of mind. • A practical guide¹² for members providing guidance on the exercise of professional skepticism at different stages of an audit engagement and how this could be documented in the audit file (produced in partnership with the Chartered Professional Accountants of Canada). <p>Another useful tool which has been developed to assist auditors understand the relationship between professional skepticism and the quality and quantity of audit evidence required is the Professional Skepticism Continuum (the continuum) developed by academics commissioned by the Global Public Policy Committee¹³. This continuum depicts a graduation of complete doubt to complete trust based on the risk factors identified within an audit (such as errors detected, indicators of fraud, level of judgment required, consistency between audit evidence and initial risk assessment and risk and susceptibility to material misstatement). The continuum explains that, as these risk factors increase, so too does the need for heightened professional skepticism and additional</p>
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¹¹ <http://www.charteredaccountants.com.au/Training/Resources/eLearning/Professional-Skepticism>

¹² [Practical Ways to Improve the Exercise and Documentation of Professional Skepticism in an ISA Audit](#) (May 2013)

¹³ [Enhancing Auditor Professional Skepticism](#) Professors Steven M. Glover and Douglas F. Prawitt, Brigham Young University (November 2013)

		audit evidence to support the auditors judgments. The level of doubt shown in the continuum ranges from a neutral stance, through to presumptive doubt and complete doubt (which would require a forensic audit approach). At the far left of the continuum is complete trust, which the authors do not consider to be an appropriate mind-set for undertaking an audit engagement. We believe that this is a useful tool to support the ISA 315 approach and to help articulate when a different level of professional skepticism is applied in certain circumstances.
51.	CAI	<p>We concur with the IAASB's description of professional scepticism as an attitude having three key elements:</p> <ul style="list-style-type: none"> • a questioning mind, • being alert to conditions that may indicate possible misstatements, and • critical assessment of evidence. <p>Clear differences of view have emerged amongst auditors and others as to how this attitude can be demonstrated and, importantly, documented. Thus we welcome the IAASB seeking to clarify the meaning of professional scepticism and believe the steps set out in paragraphs 37 to 40 are helpful. We have two reservations:</p> <ul style="list-style-type: none"> • first, an attitude of mind is not fully amenable to detailed, prescriptive processes and hence we believe that in addition to any enhancement in its standards, IAASB should also co-operate actively with professional bodies and firms with a view to ensuring that the profession gives appropriate focus and support - in recruitment, training, subsequent monitoring and other activities - to support the intellectual skills and characteristics necessary for maintenance of the appropriate attitude of mind by individual auditors; • secondly, whilst an attitude of mind cannot be driven solely by more detailed or prescriptive procedures, we believe it is nonetheless necessary to articulate the key specific, concrete actions that will ordinarily be sufficient to demonstrate its maintenance during an audit, together with the level of documentation required. Work undertaken by IAASB in conjunction with both the firms and regulators in this area would be of significant value in developing a better common understanding of what is involved both in maintaining an appropriate attitude of scepticism in the course of an audit, and in demonstrating its maintenance, based on audit evidence, at a later date. We also consider, given the nature of the topic, such articulation might be best addressed in supplementary guidance papers rather than in adding to detailed prescription in the ISAs themselves.
52.	CAQ	<p>While the CAQ views a questioning mindset as a starting point for appropriate application of professional skepticism, auditors must also understand that even the best managed organizations can be susceptible to misstatement or fraud. The appropriate application of professional skepticism requires the auditor to apply critical reasoning throughout the audit of financial statements; it is embedded in the process of finding a supported conclusion, not a biased justification of management's assertion. An auditor's fortitude to challenge management and gather additional audit evidence, as needed based on the auditor's risk assessment, is an important part of the auditor's appropriate application of professional skepticism.</p> <p>Professional skepticism is defined in international auditing standards. The standard requires "a questioning mind" and a "critical assessment of audit evidence."⁴ In the CAQ's view, to be operational, these concepts of a questioning mind and critical assessment need to be supplemented with clear direction and practical application examples on what behaviors, actions, and documentation</p>

⁴ IAASB, ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* (2009).

	<p>constitute appropriate professional skepticism in executing an auditor’s responsibility to obtain sufficient appropriate audit evidence across a range of risk scenarios for different assertions and accounts. The CAQ believes that greater clarity would contribute to more consistency in expectations on how far an auditor needs to go in collecting, assessing, and documenting evidence to demonstrate the skeptical mindset and critical challenge of management’s assertions. For example, in some cases, as part of the risk assessment process, the auditing standards require auditors to take a presumptive doubt view with respect to an account or subset of an account in which the auditor presumes a level of fraud risk.⁵ When auditing standards do not call for a heightened level of professional skepticism, the auditor approaches the risk assessment with a more neutral perspective.⁶</p> <p>Regulators and other stakeholders may have expectations about the level of skepticism auditors should apply in evaluating management assertions that differ from those one might interpret from the auditing standards.⁷ Independent audit regulators identify a number of root causes related to a lack of professional skepticism in their inspection findings, but it’s unclear whether the findings can be attributed to deficiencies in connection with professional judgment, action, or documentation.⁸ Regulators and standards-setters could provide more application guidance to auditors that includes examples that illustrate their expectations regarding the appropriate application of professional skepticism in assessing audit risks in certain areas, and how to reflect that in documentation. For example, the UK Financial Reporting Council’s <i>Thematic Reviews</i> communicate both good practices and areas of common weakness in relation to the application of professional skepticism.⁹</p> <p>Some academic observers note that the absence of clear direction and practical application guidance on what behaviors and actions constitute appropriate professional skepticism may have led to varied practices by auditors and an environment in which “reasonable observers, professionals, and regulators might understandably disagree.”¹⁰ The CAQ believes that, as a first step, the IAASB could provide supplemental guidance which would promote greater consistency and more effective application of professional skepticism, and reinforce its importance to audit quality across the audit profession. For example, in February 2012, the IAASB issued <i>Staff Questions & Answers – Professional Skepticism in an Audit of Financial Statements</i>, which provides auditors with in-depth information regarding expectations under the standards for the appropriate application of skepticism in an audit of the financial statements. The IAASB staff could build upon this guidance to provide examples of how the concepts articulated in the Q&A could be applied across a range of risk scenarios for different assertions and accounts.</p>
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⁵ See IAASB, *Staff Questions and Answers: Professional Skepticism in an Audit of Financial Statements* (2012), p. 9, which cites certain paragraphs of ISA 240 that require presumption that there are risks of fraud in revenue recognition (par. 26-27), the treatment of risks of management override as a risk of material misstatement due to fraud and thus a significant risk (par. 31), and required procedures addressing the review of accounting estimates for biases (par. 32(b)).

⁶ Id., p. 4, citing ISA 200, par. A18.

⁷ See for example, Basel Committee on Banking Supervision, *External Audits of Banks* (Mar. 2014), p. 28, which establishes that “professional skepticism should manifest itself not only through the auditor obtaining corroborating evidence for management’s assertions, but also challenging management’s assertions, considering whether there are alternative accounting treatments that are preferable to those selected by management, and documenting the auditing approach, the evidence obtained, the rationale applied and conclusions reached.”

⁸ See International Forum of Independent Audit Regulators, *Report on 2015 Survey of Inspection Findings* (Mar. 2016), p. 23, available at <https://www.ifiar.org/IFIAR/media/Documents/General/About%20Us/IFIAR-2015-Survey-of-Inspection-Findings.pdf>.

⁹ UK Financial Reporting Council, *Audit Quality Thematic Review: Fraud risks and laws and regulations* (Jan. 2014), p. 16, available at <https://frc.org.uk/Our-Work/Publications/Audit-Quality-Review/Audit-Quality-Thematic-Review-Fraud-Risks-and-Laws.pdf>.

¹⁰ See, for example, Steven M. Glover and Douglas F. Prawitt, “Enhancing Auditor Professional Skepticism (Nov. 2013), p. 3, available at <http://thecaq.org/docs/research/skepticismreport.pdf>. Also, M.W. Nelson, “A model and literature review of professional skepticism in auditing,” *Auditing: A Journal of Practice & Theory* 29 2: 1-34.

		<p>In addition, the CAQ recommends that as the IAASB develops new standards or revises existing standards, the IAASB should consider infusing in those standards application guidance on how skepticism should be applied during the risk assessment at the account and assertion level. The application guidance also could inform the determination of what constitutes sufficient appropriate audit evidence. The “professional skepticism continuum” developed by Professors Glover and Prawitt illustrates how an auditor appropriately applies professional skepticism to the auditor’s assessment of the risk of material misstatement, indicators of fraud, and detection of errors, among others.¹¹ When the auditor’s assessment indicates low risk, the auditor’s judgment as to what constitutes sufficient appropriate audit evidence for an assertion should be less extensive than when the auditor’s assessment indicates a higher risk. The process of obtaining evidence – and how much to obtain – in the specific circumstances will help auditors demonstrate how they have applied professional skepticism. Glover and Prawitt posit that explicit integration of this skepticism continuum by audit firms, standards setters, and regulators could enhance consistency of appropriate application of professional skepticism by auditors.¹²</p> <p>A model of how the IAASB might incorporate a professional skepticism continuum into individual auditing standards is the IAASB’s standard on auditing accounting estimates.¹³ The standard includes application guidance that provides a roadmap to get the auditor in the appropriate questioning mindset by considering various factors such as, for example, an accounting estimate’s level of estimation uncertainty and susceptibility to management bias or fraud.¹⁴ The guidance provides that the “susceptibility of an accounting estimate to management bias increases with the subjectivity involved in making it” and includes examples of factors that may influence the degree of estimation uncertainty and subjectivity of an accounting estimate.¹⁵ Applying Glover and Prawitt’s skepticism continuum to the example of the auditor becoming alert to indicators of management bias, which indicate higher risk and susceptibility of material misstatement, the auditor would alter the nature, timing, and extent of procedures or evidence based on the auditor’s risk assessment.¹⁶</p> <p>The application guidance in the standard advises an auditor who has concluded that management bias may exist to design and perform additional audit procedures to obtain sufficient relevant audit evidence. For example, the guidance advises the auditor to consider developing an independent estimate to evaluate management’s estimate and provides examples of approaches, including a point estimate or a range.¹⁷ In such a case, the auditor’s development of an independent estimate may include a review of the evidence that might indicate that management’s assumptions are not reasonable and would demonstrate the auditor’s skeptical attitude.¹⁸ The guidance reinforces the need for auditors to continue to be alert to indicators of management bias throughout the audit and advises auditors to use their documentation of possible management bias identified during the audit to confirm “whether the auditor’s risk assessment and related responses remain appropriate.”¹⁹</p>
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¹¹ See Glover and Prawitt, p. 4.

¹² Id, p. 6.

¹³ ISA 540, *Auditing Accounting Estimates, Including Fair Value Estimates, and Related Disclosures* (2009). Although the IAASB is considering changes to ISA 540, the concepts in the standard as currently written provide a general basis for aligning the level of skepticism required with the auditor’s assessment of risk.

¹⁴ ISA 540, par. A12-A51.

¹⁵ ISA 540, par. A9, A45.

¹⁶ Glover and Prawitt, p. 4-5.

¹⁷ ISA 540, par. 16, A111-A112.

¹⁸ Glover and Prawitt, p. 5

¹⁹ ISA 540, par. A125.

		According to Glover and Prawitt, always applying a presumptive doubt mindset in the absence of conditions that suggest susceptibility of material misstatement “may lead to unnecessary costs being imposed on the reporting entity and ultimately on investors.” ²⁰ Conversely, overreliance on a neutral approach, which Glover and Prawitt define as “neither assuming management dishonesty nor unquestioned honesty,” may result in situations in which the audit evidence gathered is insufficient to support a conclusion that rules out fraud or material misstatement. ²¹ The CAQ believes that infusing auditing standards with additional application guidance that provides examples of how the auditor can demonstrate that he or she has addressed the assessed level of risk in a professionally skeptical manner is a step the IAASB can take to enhance the consistency and effectiveness of the appropriate application of auditor professional skepticism in practice.
53.	CIIPA	Yes
54.	CIMA	--
55.	CPAA	<p>Professional scepticism is described as an attitude. An attitude is generally understood as a predisposition towards something, while the extant description of professional scepticism mentions a ‘questioning mind’, ‘being alert’ and ‘a critical assessment’. We do not think that these characteristics are attitudes but rather professional competencies. We urge the IAASB to review the existing description of professional scepticism by referring to relevant research and to articulate its characteristics and attributes if it is considered a necessary competency. We are of the view that the interaction between professional scepticism and the ethical principles of the profession requires development and its interaction with professional judgment needs clarification. Arguably if the fundamental principles of professional competence and due care and objectivity are complied with in line with the Code of Ethics of Professional Accountants and appropriate professional judgements are therefore made, then it is unclear what additional consideration professional scepticism contributes.</p> <p>Whilst professional scepticism has been an accepted concept in auditing for some time, we think that it must be able to be clearly defined in order to be able to be applied in practice. When seeking to identify its meaning in our discussions with stakeholders, professional scepticism was perceived as relating to various professional competencies rather than necessarily a separate principle or competency in itself.</p> <p>The definition in ISA 200, includes the words “alert to conditions which may indicate possible misstatement due to fraud or error”. We consider that the auditor needs to be more than just alert when conducting an audit, but instead seek to identify areas which are susceptible to fraud or error and determine whether any indicators exist which require further audit work. The second part of the definition requires a “critical assessment of the audit evidence” which we support as it is consistent with the auditor’s need to challenge the reliability of the evidence and assumptions made, as well as the views and decisions of management in assessing the sufficiency and appropriateness of the evidence gathered. In order to challenge the evidence or assumptions, the auditor needs to have a deep understanding of the industry, the entity and its environment or, in the absence of the necessary expertise, the auditor needs to engage their own experts to assist them on those areas where they do not hold the necessary expertise. The auditor and their experts should be expected to draw on their knowledge and experience of similar entities and entities within the same industry, inform themselves of cases of fraud or error identified in order to be able to look for indications of similar fraud or error occurring. This knowledge will enable the auditor to develop expectations with respect to their clients’ financial statements as a basis for</p>

²⁰ Glover and Prawitt, p. 6.

²¹ Id.

		challenging assumptions or calculations. These auditor behaviours are arguably inherent in applying principles of professional competence and due care and will require the exercise of professional judgement in order to form an opinion based on the evidence obtained.
56.	DnR	<p>Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.</p> <p>We agree that professional skepticism is an important factor in audit quality and that the main aspect in scepticism [sic] is having a questioning mindset. The question is how professional skepticism will be affected with more detailed requirements in the standards. We believe that important factors in professional skepticism is having the “right attitude” and applying a “questioning mindset” in the audit. Therefore, we think the best way for developing professional skepticism is training, education and mentoring.</p>
57.	EFAA	Our interpretation is consistent. Professional skepticism is about a questioning mind, an awareness of the environment and the ability to critically assess audit evidence.
58.	FACPCE	We believe that the definition of skepticism is consistent in the manner defined in the ISA
59.	FEE	<p>(8) We agree with the areas explored around the concept of professional scepticism. One important point is that the IAASB could clarify that, even if, with the benefit of hindsight, a judgment turns out to be different, this does not necessarily mean that the auditor did not apply professional scepticism at the time when the work was carried out; nor that there was any error in judgement at the time it was made. It may just be a consequence of the uncertain nature of specific assumptions.</p> <p>(9) Additionally, the definition of professional scepticism could perhaps be enhanced by including more explicitly the concept of the ‘right attitude’ and what is entailed by applying a ‘questioning mind’. This is often in relation to understanding the significance of what documentation and information is already on the audit file.</p> <p>(10) We consider the auditor’s personal characteristics to be a vital driver in exercising professional scepticism. Enhancing these characteristics could be strategically addressed with training, education, and mentoring.</p> <p>(11) Lastly, the link between professional judgement and scepticism is helpful to understand. The auditor must balance the need to be professionally sceptical against applying professional judgement in practice, taking account of the facts and circumstances particular to a specific engagement at a particular point in time. We also encourage further discussion around good documentation of key professional judgements, particularly on challenging areas.</p> <p>(43) The way in which scepticism is linked to professional judgements and then prompts actions and documentation is a useful construct, although care should be taken so as to not underplay the role of ‘mindset’. In addition, more emphasis can be given to the professional part rather than the sceptical one. The definition of professional scepticism should include the concept of the ‘right attitude’ that should be applied and what is entailed by applying a ‘questioning mind’. Also, the IAASB should try to understand where the barriers to professional scepticism are and engage with the regulators to identify which areas need to be enhanced further. Paragraphs 28 et seq. provide a good basis on which to build this line of thinking.</p> <p>(44) Furthermore, it is worth pointing out that scepticism is about understanding the significance of what is already on the audit file. The defining issue is often uncertainty and/or complexity. For example, auditors, including senior staff, need to be encouraged to ask for more resources when they struggle to understand technically complex issues. Because of resource constraints, they should not be forced to being satisfied with simply understanding the issue. Auditing standards and any</p>

		<p>discussion of professional scepticism needs to recognise that audit teams need to have the time and confidence to question the evidence received.</p> <p>(45) In addition, we note that because the definition of professional scepticism is an 'ISA driven matter', the impact of any change to other standards should also be considered. Perhaps the IAASB could work with the IESBA to also clarify the relationship of professional scepticism to the various ethical principles such as objectivity, independence of mind, professional competence, and professional due care.</p> <p>(46) Moreover, the connection of, yet distinction between, professional judgement and scepticism could be helpful given that the former is associated more with documentation and the latter is more about attitude. Judgement should not be restricted to documentation though: it is a process followed to arrive at a conclusion as to whether sufficient appropriate audit evidence exists to support an assertion – with the documentation being the output of that process. The definition in ISAs could also usefully clarify that professional scepticism is an epistemic issue, i.e. that it is always related to justification based on grounds or evidence.</p> <p>(47) Given the proposed linkage between professional judgment and professional scepticism, we would encourage further discussion around good documentation of key professional judgements which could potentially exhibit that professional scepticism is applied. Perhaps disciplines such as 'forcing' auditors to go through a step-by-step thought process and document this might help demonstrate professional scepticism. In this way, they could better assess 'what was given' and 'what could have been given' to them, when it would be appropriate to challenge in this way. This is also directly linked to a risk-based assessment where the auditor should be encouraged to question, as a starting point, where the material misstatement risk areas lie and decide thereafter whether it is appropriate to challenge within those areas or not. Care should be taken not to imply that challenge ought to be required in every situation, as this could lead to an audit becoming impracticable, and extend the likelihood of regulatory challenge over some of these judgments even further.</p>
60.	FSR	--
61.	IBA	--
62.	IBRACON	Our interpretation of this concept is consistent with how it is defined in the ISA.
63.	IBR-IRE	(7) Yes, we believe the concept is consistent. However, it could be reinforced and used on a more consistent basis throughout the ISAs. Illustration of the application of the concept throughout the ISAs, as relevant, would improve understanding, awareness and facilitate consistent application of professional skepticism.
64.	ICAEW	<p>Yes, although an appreciation of professional scepticism goes well beyond any definition. Exercising professional scepticism requires a wide range of competencies, actions and behaviours.</p> <p>We support the existing situation in the ISAs whereby the need for compliance with ethical requirements and the need for professional scepticism and professional judgement in planning and performing an audit are included as the first three requirements in ISA 200. These are fundamental to all audits and are needed throughout the entire audit process. It might be difficult to include specific requirements for scepticism throughout the individual ISAs, indeed this might be inappropriate if it gives the impression that it is only needed, or needed more, in specific areas rather than others. However, we would support the IAASB including additional application material to provide guidance on ways to exercise and demonstrate scepticism in more difficult areas, for example challenging of</p>

		accounting estimates and valuations. We also consider that the link between professional scepticism and the role of root cause analysis should be highlighted more explicitly in materials issued by the standard-setting boards. For example, if there is a finding that there was a lack of scepticism, this is insufficient as an explanation in itself without exploring why there was a lack of scepticism and digging deeper. It could be that the auditor lacked the personal skills needed to challenge or the analytical skills or knowledge necessary to exercise the scepticism, or it could be that there was time pressure or some other personal pressure that prevented the auditor from doing what should have been done. The evolution of the profession's approach to the topic should move from the high level term 'professional scepticism' to dealing with the many detailed underlying factors that underpin it.
65.	ICAP	<p>Auditing is fundamentally behavioral in nature and, therefore, standards should address requirements and application material need to be designed in a way that will promote the mind-set necessary for appropriate application of professional skepticism and professional judgment.</p> <p>This is fundamentally important to apply professional skepticism in the audit procedure. ICAP supports measures that can help auditors in the practical application of professional skepticism. Exploring how individual auditor behaviors, and inherent conscious and unconscious biases, impact the application of professional skepticism is critical to understanding how to better promote its consistent application. Changes to auditing standards cannot address all of the issues being raised about skepticism as it is only the mindset / behavioral aspects which impact professional skepticism.</p>
66.	ICAS	<p>We associate the term professional skepticism with a mind-set and attitude adopted by an auditor when exercising professional judgement over subjective areas of the financial statements. So there is a clear interaction between the two terms: professional skepticism and professional judgement.</p> <p>We therefore welcome the illustration on page 13 of the ITC on how professional skepticism drives action, but believe that this could be enhanced by emphasising the need for the auditor to demonstrate and adopt a particular attitude, i.e. that of a questioning and challenging nature, when exercising their judgement.</p> <p>We also acknowledge the importance of auditor documentation on how skepticism has been applied during the judgement process in order that it can be demonstrated that an appropriate conclusion has been reached based on the facts and information available at the time.</p> <p>Nonetheless, it is important that a risk-based approach is adopted in relation to the areas/matters over which professional skepticism should be applied with a focus on those areas/matters of significant risk.</p>
67.	ICAZ	Our interpretation is consistent with how it is defined in the ISAs.
68.	ICPAK	Yes
69.	ICPAU	Yes
70.	INCPC	<p>Profesional Skepticism is defined by ISAs as An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.</p> <p>We agree with the definition.</p>

71.	ISCA	<p>Generally, we agree with the definition that professional scepticism is an attitude with a questioning mind and being alert to unusual conditions. Auditors should commence an audit with a curious mind and scepticism should only come into play when there is a reason to believe that something is amiss. Otherwise, the word “scepticism” may connote a negative meaning.</p> <p>To promote proper application of professional scepticism in practice, we would like to highlight that holistic on-the-job training to educate junior auditors on the correct mindset is critical. They ought to be trained on how to critically assess audit evidence, ask pertinent questions and determine what information they should be alerted to. In the absence of proper trainings, junior auditors may risk becoming confrontational if they approach management with an incorrect attitude. Such trainings should also reiterate and reinforce the mindset that it is part and parcel to be sceptical in an audit if it is done in good faith.</p> <p>Similarly, we also believe that greater involvement and coaching by the engagement partner and manager would serve as an effective catalyst in promoting greater application of professional scepticism, via regular and robust communications between the team members.</p> <p>For higher risk engagements, a step towards a more sceptical audit would be to involve industry specialists such as a forensic team, to design special audit procedures to inject an element of unpredictability and in-depth audit evidence and approach.</p> <p>To better describe and illustrate the professional scepticism concept, one suggestion would be for the IAASB to develop case studies or role play scenarios that can be used as training materials for the junior auditors.</p>
72.	KICPA	<p>ISAs define professional skepticism as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, due to error or fraud, and a critical assessment of audit evidence (ISA 200.13). The definition is believed to be in line with the general interpretation of the concept of professional skepticism. We think the current ISA provides relatively sufficient guideline on the application of professional skepticism.</p> <p>When it comes to the interpretation of the concept of professional skepticism, the definition and description of ISAs are not much different, respectively. However, the general public and regulators seem to expect the maximum level of professional skepticism of auditors as much as possible, despite that ISAs provide sufficiently relevant guideline as to the skepticism. Professional skepticism is not only influenced by independence and objectivity of auditors, but also by appropriate amount of training and experiences, all of which can make a difference on the effectiveness of the works of the individual auditors. In case accounting fraud are found later on, resulting in claiming the responsibility of auditors who fail to detect the fraud, it seems to conclude that auditors are surely expected to apply their professional skepticism at the maximum level.</p> <p>As mentioned in the consultation, stakeholders, who commented on the IAASB Strategy for 2015-2019 and current work plan, acknowledged the complexities of professional skepticism project and difficulties in IAASB's implementation of the project. They also responded that they do not support a discrete standard-setting project, leading to changes to ISAs, as for the professional skepticism-related topic. Rather, they think that it would first be necessary for IAASB to further explore professional skepticism-related behavioral, training, and other issues, as suggested.</p>
73.	MICPA	--
74.	SAICA	102. There can be little doubt that professional skepticism and professional judgement are the fundamental concepts that drive decision-making and actions during any audit and assurance engagement. Professional skepticism is an attitude that is applied in making appropriate professional judgements.

		<p>103. ISA 200, Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing, establishes professional skepticism as a fundamental and pervasive concept and sets the overall requirement that the auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated (ISA 200.15). The standard includes application material that provides further guidance with respect to the meaning of professional skepticism and the mind-set that is required from the auditor (refer to ISA 200.A18-A22). Furthermore, the exercise of professional skepticism is reinforced throughout the ISAs in the 200 to 700 series.</p> <p>104. Notwithstanding the above, professional skepticism remains a challenging area:</p> <ul style="list-style-type: none"> ➤ Questions remain whether there is a common understanding of what it really means and what is expected in terms of considerations, actions and decisions of the engagement partner and of the engagement team. ➤ How does one demonstrate the application of professional skepticism (i.e. the matter of documentation) and conclude that an appropriate level of professional skepticism has been applied? ➤ How to further clarify and emphasise the link between professional skepticism and sufficient appropriate audit evidence. The auditor's evidence is what gives the auditor confidence to conclude and to form an audit opinion, but only if such evidence has been obtained objectively, without bias, and is sufficiently persuasive. ➤ Considerations relating to whether the IAASB's standards are clear and sufficient, coupled with what can be expected of those standards in terms of additional requirements and application material (i.e. how far can the standards really go). ➤ Is professional skepticism as a behavioural phenomenon understood well enough? ➤ Considering how to best instil and cultivate appropriate behaviour from auditors, including reflecting on the skills and attitudes of auditors (i.e. aspects of auditor competencies). ➤ Considering that it is not just the behaviour of the auditor that is of concern, but also the behaviour and attitudes of those being audited (in particular, those charged with governance). <p>105. Ultimately, it is in the execution – how well the auditor has succeeded to exercise professional skepticism. External inspection findings in South Africa (similar to what has been noted internationally) have identified the lack of exercise of sufficient levels of professional skepticism as a root cause with respect to numerous inspection findings (as per the IRBA Public Inspections Report 2014/2015).</p> <p>106. We have no doubt that enhancing the exercise of professional skepticism requires a holistic approach (an integrated approach) in which standard-setting should contribute to the solution, but can never provide the full solution. We commend the efforts of the IAASB in this regard (including those of the working group that comprises representatives from the IAASB, IESBA and IAESB). Considerable and significant ground work has been done already. We generally support the areas that the IAASB has identified to explore further, and offer our further input in this regard in answering questions PS 1 to PS 5.</p> <p>107. Survey respondents were divided when asked to indicate the extent to which they agree with the following statement ("6" indicates strongly agree and "1" indicates strongly disagree): The international standards are sufficiently clear with respect to what is meant by "professional skepticism" – overall and in relation to individual audit topics or areas, including its link to other concepts.</p>
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		<p>51.7% of survey respondents recorded an assessment at a level of “3” and below (indicating primarily disagreement) and 48.3% recorded an assessment at a level of “4” and higher (indicating primarily agreement). There was almost an equal split between respondents across the entire scale (1, 2, 3, 4, 5 and 6).</p> <p>108. Auditors could certainly benefit from additional descriptions of professional skepticism in terms of the behaviour and attitudes that are inherent in exercising professional skepticism, and the factors and characteristics that influence these (i.e. enhancing the application material in the standards). However, the ability of the standards to sufficiently address this is limited, and additional support material and guidance will probably be required (also refer to our comments with respect to question PS 5 below).</p> <p>109. The promotion of a more neutral mentality deserves attention. In gathering sufficient appropriate audit evidence, the auditor must not be unduly influenced by a belief that management and those charged with governance are honest and have integrity. However, this does not mean that the auditor must assume the opposite, until proven otherwise (as was suggested by a question we received from an attendee during one of our sessions). It simply requires the auditor to be neutral in his/her approach; i.e. let the evidence speak for itself – exercise professional skepticism and do not be satisfied with less than persuasive audit evidence.</p> <p>110. We support a clearer and more direct link between professional skepticism and other concepts, as highlighted in paragraph 37 of the ITC (1st bullet point), including links across the international standards of the IAASB, IESBA and IAESB.</p>
75.	SMPC	Our interpretation of professional skepticism is consistent with the definition in ISA 200 ⁵ .
76.	WPK	<p>The description of the concept of professional skepticism (see notes 24-27) seems appropriate albeit somewhat theoretical. This may result in difficulties in its application. We therefore welcome the attempt to clarify the meaning of professional skepticism.</p> <p>A clear emphasis on professional skepticism in the various ISAs appears prudent to ensure its adequate realization by the auditors. However IAASB correctly underlines that professional skepticism is a mind-set of the auditor, which cannot be generated and verified by the ISAs alone. Therefore ways should be considered to demonstrate that an appropriate level of professional skepticism has been applied by the auditor throughout the audit.</p> <p>With regard to the key topic professional skepticism we welcome that IAASB, IESBA and IAESB intend to coordinate and harmonize their activities (see note 37) in order to ensure a common understanding and a consistent approach of the standard setting boards.</p>
Academics		
77.	AAA	<p>General note: The Committee is aware that the IAASB recently commissioned an academic synthesis of the skepticism literature that was completed in December 2015 (Brazel and Shaefer 2015), referenced in the “Activities” section in paragraph 36 and in footnote 21. Therefore, our goal in this comment letter is not to recreate that comprehensive synthesis, since the academic literature on this topic is voluminous and dates back many years, and current research builds upon previous research. Instead we provide insights related to specific questions raised in the ITC from the standpoint of new and emerging academic research.</p> <p>The definition given in ISA 200 paragraph 13(1) and in the IAASB’s Glossary of Terms describes professional skepticism as: “An attitude that includes questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and</p>

⁵ ISA 200, *Overall Objectives of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*

	<p>a critical assessment of evidence.” This definition and the related definitions from PCAOB and AICPA standards have been used extensively in the academic literature (Hurt, Brown-Liburd, Earley and Krishnamoorthy 2013). Some academic papers, however, argue that the definition is still not well understood and imply that guidance in standards regarding professional skepticism and its application to audit engagements should be expanded to include other considerations. For example, Glover and Prawitt (2014) note that although skepticism is indeed “an attitude that includes a questioning mind,” the level of skepticism applied is context-specific. Therefore skepticism should be thought of as a level of evidence questioning ranging on a continuum from complete trust in the veracity of the evidence to complete doubt, depending on the circumstances (mainly tied to complexity and risk associated with the audit). This notion seems consistent with the section of the definition cautioning auditors “to be alert to conditions which may indicate possible misstatement due to error or fraud.”</p> <p>The relationship between skepticism and the presence of management bias (as discussed in paragraph 39 of the ITC) also merits attention. ISA 540, paragraph 21, specifically notes that “auditors should review the judgments and decisions made by management in the making of accounting estimates to identify whether indicators of possible management bias exist.” This implies that the presence of bias in management’s estimates would increase the risk of material misstatement related to those estimates (and therefore auditors should be more skeptical of evidence provided by management when bias exists). Perhaps this is captured in the notion of increased risk on the continuum proposed by Glover and Prawitt; however, it seems that it would be useful to link the assessment of management bias in estimates in ISA 540 to increased professional skepticism in ISA 200.</p> <p>Interestingly, the link between management bias and skepticism is rarely made explicitly elsewhere in the academic literature, although Hurt et al. (2013) note that researchers have linked auditors’ own biases and their resulting lack of skepticism. Nolder and Kadous (2015) note that the auditors’ own beliefs can impact their skepticism, and propose a definition of professional skepticism focusing more on the attitude component of the current definition in ISA 200. They believe that the auditor’s feelings (or affect) should be explicitly taken into account in the definition of professional skepticism. Nolder and Kadous (2015) define skepticism in their paper as “an unobservable, latent attitude construct reflected in auditors’ (1) evaluative beliefs about management’s assertions, including the risk of material misstatement and what constitutes appropriate and sufficient evidence to support the opinion, (2) feelings in response to the risks associated with potential misstatement in management’s assertions and potential evidence inappropriateness or insufficiency, and (3) intentions and behaviors associated with the nature, extent, and timing of additional audit procedures performed which determines the ultimate persuasiveness of the evidence supporting the audit opinion.” It is noteworthy that the main areas of focus in the definition are the auditors’ beliefs, feelings, and intentions and behaviors, which Nolder and Kadous (2015) argue are often ignored in academic studies of auditors’ professional skepticism (the possible exception to this is measuring auditors beliefs about risks). This may be because affect is hard to capture in experimental settings, but making auditors aware of how their own feelings or biases can impact their skeptical judgments may be helpful and forms the basis for judgment frameworks as discussed below.</p> <p>Based on the Committee’s review of the academic literature, it appears that the current definition of professional skepticism in the ISA’s is adequate and captures the necessary characteristics of professional skepticism. Additional guidance might be needed about the appropriate level of skepticism to apply under specific circumstances, however (Glover and Prawitt 2014). This guidance would aid both auditors in their application of professional skepticism and regulators who evaluate the adequacy of audit procedures performed. It would also help to alleviate situations in which there is a mismatch between the amount of skepticism deemed adequate by regulators versus auditors (Glover and Prawitt 2014). In addition, the guidance should caution auditors to be aware of how their own feelings, beliefs, or biases may impact their application of professional skepticism. This self-awareness is a major component</p>
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		of the frameworks for professional skepticism developed by several professional services firms, as discussed in Glover and Prawitt (2014) and in the response to PS2 below.
78.	AHigson	I have nothing to add to your definition of professional skepticism, but I think it is unlikely that increased audit skepticism alone is enough to tackle the problems facing the external auditors.
79.	Glover-Prawitt	<p>We are pleased to respond to the Professional Skepticism component of the Invitation to Comment (“ITC”).</p> <p>We support the IAASB’s project to reconsider the concept, definition and application guidance around professional skepticism. While the concept of professional skepticism is not new, there is increasing evidence that there is not a common understanding of what professional skepticism is, what it entails, and how it is appropriately evidenced in the audit working papers. We have outlined most of our views on professional skepticism in the 2013 monograph, Enhancing Auditor Professional Skepticism, commissioned by the Global Public Policy Committee (hereafter the Enhancing Skepticism monograph). In this response we will reference the Enhancing Skepticism monograph and provide additional insights we have gained through subsequent consideration of this important topic.</p> <p>We point out in the Enhancing Skepticism monograph that there is a lack of consensus in practice and in academia regarding just what professional skepticism is, what actions it includes, and how it should be evidenced in the work papers. We believe a fundamental cause of the lack of consensus is the current vague definition of professional skepticism in the standards along with limited references of the concept in the auditing standards (for example, there is only one reference to professional skepticism in ISA 330 and ISA 540 and it is not even mentioned in ISA 700).</p> <p>We recognize that some leaders in the profession have a different perspective than we do around professional skepticism. For example, the traditional view is that professional skepticism is an attitude that includes a questioning mind, which the auditor should use throughout the audit but is not directly connected to risk of misstatement or evidence. In this view, professional skepticism is an omnipresent state of existence and if an auditor is deemed to lack skepticism it is because the auditor had inappropriately “turned off” their questioning mind. Those with this perspective are particularly critical of inspection findings indicating that auditors “lacked professional skepticism” because they see this label as an inappropriate application of the underlying concept, which is simply a mindset. From this perspective, it is difficult, if not impossible to determine ex post that an auditor did or did not have the appropriate mindset during the audit and as such the observed deficiencies should not be labeled a “lack of professional skepticism,” but rather a lack of compliance with auditing standards to gather sufficient, appropriate audit evidence. Professionals holding this view would advise the IAASB to turn back the hands of time, emphasize to the profession and regulators that the concept of professional skepticism is disconnected with auditor behavior, audit evidence and documentation, and preferably disallow regulators from evaluating the application of professional skepticism. Similarly, those holding the traditional view are concerned that the changes we propose in the Enhancing Skepticism monograph may set unrealistic expectations and unintentionally raise the performance standard. Ironically, if we carefully analyze what has happened since the profession has faced increased regulatory inspection applying the current vague definition of professional skepticism, it appears that inspectors and regulators may have unrealistic expectations that may be raising performance standards, but perhaps in misdirected ways. In other words, it seems the profession may be currently experiencing the concerns used to argue against revision to the definition and application of professional skepticism in the auditing standards.</p> <p>We believe it is time to move beyond the traditional view of professional skepticism for a few reasons: 1) we think it is unrealistic to reset world regulators’ views about professional skepticism or insist that they stop evaluating the application of professional skepticism, 2) it seems the costs of continuing the current approach outweigh the benefits, and 3) we think a more practical and clear definition of professional skepticism combined with application guidance in auditing standards will improve audit quality through</p>

	<p>improvements in the consistent appropriate application of professional skepticism. We trust the IAASB can address potential concerns regarding expectations and performance standards in a revision and we think our recommendations have the potential to clarify expectations and performance standards for auditors and regulators.</p> <p>In our opinion, the crux of the issue is whether professional skepticism in the standards should remain as simply an attitude or if the IAASB should develop a more useful and practical definition of professional skepticism that moves beyond attitude to recognize that the proper application professional skepticism, in combination with professional judgment, may lead to behavior such as a response, action, evidence collection and evaluation. Rather than try to disconnect professional skepticism from risk assessment, professional judgment and behavior, we believe the profession will be better served by acknowledging and describing how these concepts are connected. We also point out in the Enhancing Skepticism monograph, the connection between these concepts suggests there is a need to recognize that there is a continuum of professional skepticism (i.e., as the risk of material misstatement increases the auditor's skeptical mindset moves from a neutral to a more challenging mindset such as presumptive doubt). We believe that audit quality will be improved, and false-positive inspection findings reduced, if the auditing standards recognize that there are situations where the application of professional skepticism is particularly relevant and important and situations where is it less relevant and important (although always necessarily present to some degree). We believe application guidance illustrating when and how professional skepticism is applied and evidenced across the continuum will go a long way to help junior auditors properly understand and apply the concept. Similarly, we believe audit quality will benefit if the standards articulate that the appropriate application of professional skepticism may lead to action that is documented in the working papers.</p> <p>We see that the IAASB and the task force are considering the interrelation between professional judgment and professional skepticism. In the ITC there is a figure (pg. 13) that illustrates a potential relationship between professional skepticism and professional judgment. We recognize the simple two-dimensional figure has limitations and was not likely intended to capture the full relationship. We point out that the application of professional skepticism and professional judgment are not linear and separate processes, but rather, along with risk assessment, represent a connected, continuous and iterative process. As we have considered the ITC and the concepts of professional skepticism and professional judgment, we are struck by just how connected these concepts are. While professional judgment and professional skepticism are not synonymous, there have similar and connected purposes in an audit setting.</p> <p>The lack of parallelism in the concepts of professional skepticism and professional judgment is likely most apparent in situations where the auditors' initial risk assessment indicates that an area presents low risk of material misstatement. In these situations, the planned nature, timing and extent of evidence will reflect a low-risk setting. However, the proper application of professional skepticism in low-risk situations may identify potential red flags around the reliability or validity of evidence provided (e.g., falsified records, biased or incomplete information) and in such situations the auditor's application of professional skepticism will lead to actions such as a reevaluation of the initial risk assessment and likely a change in audit procedures to address the red flags identified.</p> <p>As an illustration, consider a situation in the audit of a UK entity where the auditor deems an area low risk and the planned audit procedure is circularization or confirmation. If a confirmation is sent to a third-party entity with no operations or locations within the UK but the return response was post marked within the UK, the proper application of professional skepticism would recognize this finding as a potential red flag and the audit team would determine an appropriate response. Typically, as in this example, simply increasing the extent of testing (i.e., sending additional confirmations) would not likely be an effective skeptical response to the increase risked. Rather, professional skepticism along with professional judgment would lead the auditor to revise the nature of the audit evidence to specifically address risk posed by a potentially falsified confirmation response. If it is determined that the confirmation was intentionally falsified, the application of professional skepticism would result in an increased risk assessment and</p>
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		<p>the auditor would apply skepticism and judgment to determine the appropriate response in that particular audit area as well as broader implications across the audit. In this example, if the auditor noticed what should have been a red flag but did not respond and the audit were subsequently inspected, the lack of response to the red flag likely would be considered an audit deficiency due to a lack of professional skepticism.</p> <p>In the context of the continuum of risk of material misstatement, we believe that in higher risk situations there is a need for heightened professional skepticism that will work in tandem with professional judgment to adjust the nature, timing and extent of testing. As we indicate in the Enhancing Skepticism monograph, we believe it would be beneficial for the auditing standards to recognize the continuum and provide clarity that would assist auditors and regulators agree how to apply professional skepticism in low and high risk situations, how the auditor should respond, what actions could be taken, and how to tell the story of the proper application of both professional skepticism and professional judgment via audit documentation.</p> <p>From our experience in teaching college students and training staff level auditors, simply telling these bright young professionals to use their professional judgment or to be professionally skeptical is not particularly satisfying because the concepts are too vague to be applicable. However, as we break down the concepts in to practical components and then provide tools, techniques and hands-on examples on how the application of professional judgment and skepticism can be improved (e.g., consider the opposing case, proactive fanning of issues, avoiding common biases) students and junior auditors are better able to understand and apply the concepts. For this reason, in the Enhancing Skepticism monograph we recommend that standard setters include frameworks for professional judgment and professional skepticism. Frameworks can provide professionals with common vocabulary, tools and techniques and will help to boost the ability of junior professionals in applying professional judgment and skepticism. Frameworks can help junior auditors to answers questions such as:</p> <ul style="list-style-type: none"> • If I wanted to apply more rigorous professional judgment/skepticism, what can I do? • What actions demonstrate the proper application of professional judgment/skepticism and how do those action differ across the risk continuum? • What are the common traps and impediments to the proper application of professional judgment/skepticism? • How do I document the proper application of professional judgment/skepticism in the working papers? <p>In summary, we believe the IAASB is facing an important opportunity to improve audit quality. We encourage the IAASB to carefully consider the opportunity and at least consider a different perspective where professional skepticism is defined as more than merely an attitude in the auditing standards. We believe that audit quality will improve if the IAASB is able to develop a more practical and useful definition of professional skepticism accompanied by application guidance that demonstrates the appropriate application of professional skepticism across the risk continuum and throughout the audit.</p>
80.	TRay	<p>The language currently used in ISA 200 the auditing standards to describe professional skepticism is quite good. I also like the description provided in the PCAOB's AS 1015.07, which contains the essential elements of what it means to be skeptical. It states:</p> <p>“Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.”</p> <p>This language properly points to the objective of skepticism, that is, to “diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.” Supporting the independent, objective and critical evaluation of audit evidence is ultimately what the Board should strive for in any project on skepticism. The application material in ISA 200 also points in this direction.</p>

	<p>There remain several opportunities to improve the discussion around professional skepticism.</p> <p><i>Help to Improve the Clarity of Discussions About Professional Skepticism</i></p> <p>When audit failures are discovered, we sometimes hear that the auditor “was not skeptical enough” or that the situation required “a higher level of professional skepticism” or that “the auditor’s skepticism should be enhanced.” I am guilty of the same thing, as is evidenced by some of the language I used in my article referenced above. This variation in the way skepticism is described is not helpful, and the Board has the opportunity to provide needed leadership in how this concept is discussed.</p> <p><i>Eliminate Unneeded or Contradictory Guidance</i></p> <p>A particular passage in some auditing standards sets the wrong tone. For example, the PCAOB’s standards include this passage, which is that, “The auditor neither assumes that management is dishonest nor assumes unquestioned honesty.”¹ This language apparently directs the auditor to be neutral. By definition, skepticism is not a neutral mindset. Merriam-Webster defines skepticism as, “an attitude of doubt or a disposition to incredulity either in general or toward a particular object.”²</p> <p>The profession is aware of many instances in which management was dishonest. Although that does not mean the auditor should always assume management is dishonest, the auditor should accept that there always is a possibility that management is dishonest. Stating this fact in the auditing standards is appropriate and would be helpful.</p> <p><i>Eliminate Passive Guidance and Direction</i></p> <p>The ITC says that, “Professional skepticism includes being alert to, for example, audit evidence that contradicts other audit evidence obtained, or information that brings into question the reliability of documents or responses to inquiries to be used as audit evidence.” ISA 200 also uses this type of language. I do not believe that it is not strong enough to tell the auditor to be “alert.” A critical evaluation of audit evidence should include the auditor <i>actively</i> evaluating whether the evidence obtained is consistent with management’s assertions in the financial statements and with other audit evidence obtained.</p> <p>In my The CPA Journal article, I recommended that auditors must “be alert” to contradictory audit evidence, etc. As discussed in the preceding paragraph, I now believe the Board should consider a more active approach to the guidance.</p> <p><i>Keep Things Simple</i></p> <p>A point of discussion is whether an auditor can and should <i>vary</i> the amount of professional skepticism applied depending on the facts and circumstances at hand, or whether, more simply, the auditor is either skeptical or he is not. It is not clear that this difficult question needs an answer, if the Board were to focus instead on what it expects auditors to do (that is, to objectively and critically evaluate all audit evidence obtained).</p> <p>There has been at least one recommendation that auditors implement a professional skepticism continuum. The Board naturally will consider this idea if it undertakes a project in this area. I have serious doubts about whether such a continuum can be effectively understood and implemented and believe that it would not be helpful to place another layer of complexity over an already complex process.</p> <p><i>Focus on Outcomes, What the Board Wants Auditors to Do</i></p>
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¹ PCAOB, AS 1015.09.

² <http://www.merriam-webster.com/dictionary/skepticism>.

		<p>As the Board works through this project, it should remain focused on how the description of professional skepticism (including any related standards and guidance) will affect the auditor's behavior and attitude. The following are the types of auditor behaviors and attitudes that should be expected from an auditor who is appropriately skeptical:</p> <ul style="list-style-type: none"> • The objective and critical evaluation of all audit evidence obtained • An understanding that there always is a possibility that audit evidence will be contradictory to management's assertions in the financial statements • An understanding that there always is a possibility that the financial statements could be misstated due to fraud or error • A continuous assessment of whether sufficient appropriate audit evidence has been obtained
Individuals and Others		
81.	CBarnard	Professional skepticism is one of the key enablers that support professional judgment. It is important to note that both professional skepticism and professional judgment are heavily dependent on the auditor's continuing objectivity and independence. Therefore in carrying out audit work it is critical that auditors do not allow bias, conflict of interest, or the undue influence of others to override their professional judgment, and that their professional judgment is not, and cannot reasonably be seen to be, compromised. I call this the optimal level of professional judgment. This attitude, behavior and working style is the key to auditor integrity. ¹
82.	CK	--
83.	DAHughes	I concur with the definition in the ISAs. However, there are limitations as to how skepticism can be exercised in practice. The limitations are a function of the auditor's education and experience, and the way larger, more complex audits are organized.
84.	JGrant	The definition of professional scepticism as being 'an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence' has remained unchanged for many years. Since it was first developed audits have become much more risk driven. One of the problems with the current definition is that it does not help define the appropriate mindset for risk assessment in accordance with ISA 315. At the London forum a view was advanced that the proper mindset was a 'neutral' one – I cannot agree with this. Auditors must, to some degree, doubt management and the reliability of the draft financial statements if they are to properly identify audit risks and gather sufficient audit evidence. Some academics have termed this mind set 'reasonable doubt'.
85.	JK	<p>First, I suspect this is just a way for inspectors to say, with hindsight, that they think the auditor did a bad job. And second, the eventual proposed solution is – paragraph 20 - documentation. See above.</p> <p>More clearly documenting what skepticism means in standards won't help either. As noted above, application of skepticism/judgement will necessarily mean that different practitioners will come to different conclusions – faced with the same or similar facts. Even with more documentation, regulators and inspectors will still probably disagree (they have the privilege of the</p>

¹ See also the IESBA's definitions of Objectivity and Integrity in their Handbook of the Code of Ethics for Professional Accountants. 2015 Edition available at: <http://www.ethicsboard.org/system/files/publications/files/2015-iesba-handbook.pdf>

		<p>passage of time – hindsight - which always allows for a better decision.) But hindsight does not prove that the judgement was wrong at the time, or that insufficient skepticism was applied.</p> <p>The document on the application of judgement/skepticism document prepared by Canada and Australia provided an excellent checklist of how to document the application of judgement and skepticism. But it does not improve the process, only the documentation. Practitioners are encouraged to exercise proper documentation, not skepticism.</p> <p>Inspectors are part of the problem. They complain that auditors insist on black letter disclosure, and then complain that auditors should use judgement to eliminate immaterial disclosures that clutter the financial statements and obscure “important disclosures” and then complain when any item of disclosure – no matter how trivial - is overlooked. We had an inspection where the bottom line criticism (that we were required to fix in “our” note disclosure in “our” financial statements) was that certain numbers in a note were not double underlined. And it is not our disclosure and they are not our financial statements. And then regulators say that audit firms should ignore some of their observations while implementing them all.</p>
86.	KKTuraga	Yes.
87.	SDeViney	Yes.

PS2. What do you believe are the drivers for, and impediments to, the appropriate application of professional skepticism? What role should we take to enhance those drivers and address those impediments? How should we prioritize the areas discussed in paragraph 37?

	Respondent	Comments
Investors and Analysts		
1.	CalPERS	<p>Professional skepticism is influenced by individual attitudes, ethics and competence. As a result, application of professional skepticism is generally demonstrated by thorough audit reports and documentation that clearly reflect the application of an auditor's sound judgment throughout the audit. Additionally, audit documentation provides evidence that the audit complies with the ISAs.⁸</p> <p>As stated in the ISA 230 handbook, "there may be no single way in which the auditor's professional skepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional skepticism in accordance with the ISAs. Such evidence may include specific procedures performed to corroborate management's responses to the auditor's inquiries."⁹ So, we believe that there is a need for clarification in the ISAs about what constitutes sufficient evidence of the application of professional skepticism and how auditors should document the application of professional skepticism.</p> <p>An additional impediment to the appropriate application of professional skepticism is the fact that auditors must be skeptical of the very entities that pay them. Consequently, auditors may be less motivated to challenge management assertions. This results in a disincentive for an auditor to be overly skeptical and creates a potential conflict of interest in the assessment. Given this, investors must rely on overall professionalism in the auditing profession and sufficient disclosures demonstrating independent assurance and attestation as to the quality of financial statements. We encourage strengthening performance and compensation metrics and incentives, where possible, to encourage consistent use and application of professional skepticism.</p>
2.	CalSTRS	<p>Audit firm and audit team attributes are important drivers of audit quality. Audit quality is dependent on an auditor's objectivity, independence and professional skepticism. There is an existing dichotomy with auditors believing an issuer is the client of the auditor versus the shareholder being the client. Audit Committees must reinforce their fiduciary duty to shareholders and assure auditors of the importance to challenge management in applying professional skepticism. Adequate communication between the auditor, Audit Committees and investors through the Audit Committee Report and the Auditor's Report is an essential part of the audit process.</p> <p>Additionally, there are many other inherent impediments to the application of skepticism and include:</p>

⁸ See, paragraph A7, <http://www.ifac.org/system/files/downloads/a011-2010-iaasb-handbook-isa-230.pdf>

⁹ See, paragraph A7, <http://www.ifac.org/system/files/downloads/a011-2010-iaasb-handbook-isa-230.pdf>

		<ul style="list-style-type: none"> • Congenital bias, relationships • Deadline and budget pressures • Incentives that do not align with professional skepticism. <p>Some mitigating factors include accountability through the disclosure of the engagement partner's name in the audit report, training, continuing professional education (cpe), supervision, mentoring, planning, inspections and culture of the work environment and audit firm.</p>
3.	CFA	--
4.	IA	<p>For auditors to challenge management and exercise scepticism, we consider it vital that they are independent of management and are objective in undertaking their work. Whilst the areas discussed in paragraph 37 are important to professional scepticism, the ITC gives insufficient attention to the issues of auditor independence and governance. The significant fees from non-audit services and, although it is now being addressed with increased tendering, the long terms auditors can hold office can impair auditor independence and objectivity. It is thus important that an audit firm's leadership and "tone at the top" promotes a culture that reinforces the importance of audit quality. For example, a firms' processes for performance evaluation, compensation and promotion should emphasise the importance of audit quality and that it should override commercial incentives such as generating revenues.</p>
5.	ICGN	<p>The ICGN believes that audit quality is primarily dependent on the objectivity, independence and professional skepticism of the auditor. We think it is important to have robust professional standards, rules, and internal policies and procedures at the audit firms that deal with the threat of familiarity between the auditor, the entity and management.</p> <p>The ICGN believes that enhanced auditor reporting may indirectly drive professional skepticism by the auditor on significant audit risks by providing more transparency into the audit process, including actions taken by the auditor to address key audit matters. Additionally, we believe that the disclosure of the engagement partner's name in the audit report improves transparency.</p> <p>We think staffing requirements, along with training, are additional attributes that may impact the level of auditor skepticism exhibited during the audit. We believe increased training and the culture of the audit firm can be major factors in instilling auditor skepticism.</p> <p>Among those areas for further exploration by the Joint Working Group that comprises the IAASB, IAESB, and IESBA, the ICGN recommends that the following be prioritized:</p> <ul style="list-style-type: none"> • The role of engagement partners, engagement quality reviewers, audit committees, audit oversight bodies and others in influencing the appropriate application of professional skepticism, and • How auditor training can be enhanced to further develop the application of professional skepticism.
6.	NZSA	<p>PS1 to PS5. The NZSA recognises the need and desire for Professional Skepticism; but the user of a set of accounts will be more interested in what metrics can be produced to demonstrate Professional Skepticism has been applied by the Auditor in reviewing an organisation's operation/accounts.</p>
7.	SAAJ	--

Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	<p>The Committee believes the requirements in the standards should ensure that auditors are able to demonstrate professional scepticism throughout the audit process, from start to finalisation.</p> <p>The Committee supports the work that is underway at the IFIAR to survey the quality of audits of Globally Significant Financial Institutions (GSIFIs) and to take steps to improve audit quality. The most recent survey of GSIFIs found the highest number of deficiencies related to internal control testing, auditing of allowance for loan losses and loan impairments, auditing the valuation of investments and securities, and use of experts and specialists. These are issues where professional scepticism is particularly relevant, and the Committee believes that improvements to auditing standards and guidance on these issues that take account of the lessons of the financial crisis could significantly improve audit quality.</p> <p>The application of professional scepticism should be reflected in the auditor's working papers and in the procedures performed by the auditor throughout the audit, based on requirements in the standards. This includes documenting and providing evidence of the auditor's exercise of professional scepticism, including evidence of discussions with management and those charged with governance. Furthermore, evidence of the auditor's exercise of professional scepticism should also be documented and reflected in connection with the audit firm's compliance with its audit quality control structure. The Committee believes that auditors should not only assess management's evidence but also should actively look for other evidence that is contrary to management's evidence, weighing even-handedly evidence that supports and evidence that contradicts management's assertions. In addition, requirements should contain steps to ensure that auditors do not give more weight than they should to management representations as a form of evidence.</p>
10.	CPAB	<p>Lack of professional skepticism is a common CPAB inspection finding. Professional skepticism would be more consistently applied if guidance is embedded into those ISAs that address the auditor's response to risk, including the audit of transactions and balances subject to significant judgment on the part of management. Accordingly, we support the proposals in the ITC to incorporate professional skepticism in all of the Board's projects to amend the ISAs.</p> <p>To do this effectively we encourage the IAASB to accelerate the timeline for its work on the topic of professional skepticism. The ITC indicates that the way forward for both quality control and group audits will result in the tabling and approval of project proposals between September and December 2016. However, for professional skepticism, the joint working group only expects to decide on a way forward by late 2016. This timeline will make it difficult to take an integrated approach in addressing professional skepticism within these current projects.</p> <p>Specific comments in this area also include:</p> <ul style="list-style-type: none"> Paragraph 38 of the ITC sets out how the IAASB's current efforts on quality control and group audits, as well as its project on accounting estimates, provide opportunities to reinforce the concept of professional skepticism. However, the quality control section of the ITC does not directly deal with how firm leadership responsibility and accountability, firm culture and

		<p>strategy, as well as actions by the engagement partner and the EQCR, can better promote the application of professional scepticism in audits.</p> <ul style="list-style-type: none"> Accounting estimates generally involve significant management judgment and therefore there is an increased risk of unintentional or intentional management bias. We support the IAASB in investigating further how ISA 540 can be strengthened to improve the focus on auditors approaching accounting estimates with a more questioning mindset and in highlighting the need to consider the effect of contradictory audit evidence that comes to the auditor's attention.
11.	EAIG	<p>8. We believe that professional scepticism is an element of auditor behaviour that has the potential to impact the audit in its entirety. As such, we agree that the approach taken by the IAASB to address professional scepticism holistically, and not only from an auditing standards perspective, is appropriate. However, we would have concerns if the focus of the IAASB project moved away from improving the current auditing standards.</p> <p>9. In addition, we draw the IAASB's attention to the following aspects stemming from the European Audit Directive³⁰ which, in essence, relate to the work effort required from the auditor regarding professional scepticism:</p> <ul style="list-style-type: none"> – professional scepticism should be applied by the auditor <u>throughout the audit</u>, – the auditor shall maintain professional scepticism in particular when reviewing: <ul style="list-style-type: none"> i. management estimates relating to fair values, ii. the impairment of assets, iii. provisions, and iv. future cash flow relevant to the entity's ability to continue as a going concern. <p>10. We invite the IAASB to maintain its focus on setting the requirements for the exercise of professional scepticism at an appropriate level which takes into account the aforementioned provisions.</p>
12.	EBA	<p>The application of professional scepticism by auditors is one of the key topics which needs to be given priority by the IAASB, as it is fundamental to the public trust and confidence in financial reporting. Considering the increasing complexity of accounting standards, as well as the evolving auditing practices, the exercise of professional scepticism is key for ensuring audit quality. We also note that the audit of IFRS 9, with the estimation of expected credit losses being subject to high estimation uncertainty and management judgment, will require auditors to exercise a significant degree of professional judgment and scepticism. Therefore, we would encourage the IAASB to consider professional scepticism as a matter of priority for high-quality audits (at least on the same level as audit quality and group audits).</p> <p>With that in mind, while we acknowledge that the process may be complex, particularly when other bodies are involved, we urge the IAASB to commit timely on a project plan and timetable for enhancing the application of professional scepticism. Paragraph 35 of the Overview of the ITC might indicate that the project on professional scepticism may extend so that no tangible outcome is achieved on a timely basis, which is not consistent with the IAASB's objective of enhancing the quality and consistency of audit practice and strengthening public confidence in auditing and assurance.</p> <p>Requirements fostering training and professional education at firm level: we believe that the requirements to foster training and professional education at firm level should also contribute to the development and the application of professional scepticism,</p>

³⁰ Directive 2006/43/EC Art. 21(2)

		since auditors will be able to exhibit the appropriate level of competencies for their given tasks and therefore be able to exercise professional scepticism when performing an audit.
13.	ESMA	<p>Changes in the nature of business models and developments in the financial reporting increase the importance of professional scepticism to be exercised by auditors who must be confident when challenging issuer's management on a range of matters relevant to the preparation of financial statements. As emphasised in paragraph 15 of the Overview of the ITC, professional scepticism is key to the audit approach as it enables the auditor to detect irregularities³ and draw appropriate conclusions. Adopting a critical attitude is a fundamental component of auditors' behaviour in fulfilling their public interest mission to increase confidence in audit and thus, also in financial reporting. Consequently, ESMA welcomes the IAASB' proposals to reinforce the concept of professional scepticism and how this shall be applied in practice.</p> <p>ESMA would also like to highlight the importance of professional scepticism in making professional judgment in an environment where new and amended financial reporting standards have become even more principles-based and with less bright lines than before. The success of principles based standards relies on the ability to exercise 'good quality' professional scepticism that can contribute to a sound judgement. The users of the financial statements must be able to trust that professional judgements and scepticism have been exercised without compromises by the issuers and auditors. ESMA encourages the IAASB to further elaborate on the link, relations and differences between professional scepticism and professional judgement.</p> <p>ESMA supports the drivers included in paragraph 37 of the Overview of the ITC for the appropriate application of professional scepticism and in particular, considers that education, professional skills and personal characteristics of the auditors involved in the audit work are among the most important ones. Auditors are able to perform statutory audits with satisfactory quality if their professional conduct features professionalism, competence and diligence, objectivity and independence, integrity and reliability. Furthermore, auditors have to adopt an attitude of professional scepticism and always act in the public interest.</p> <p>ESMA is also of the view that professional scepticism could be significantly improved by strengthening the communication and interaction between the auditor and the audit committee⁵, as expressed by the IAASB in Table 1 and paragraph 10 of the Overview of the ITC. From a "tone at the top" perspective, the audit committee's members with relevant knowledge are in a position to better assess audit quality, challenge the application of professional scepticism and auditors' judgements, provide input on financial reporting and audit risks and discuss with the auditor any change in the audit focus that might be appropriate to reflect those risks. Auditors should be required to communicate⁶ more actively towards the audit committee on certain topics such as the application of professional scepticism, judgements made and previously identified audit deficiencies. ESMA considers that guidance to be issued by the IAASB for audit committees on certain topics might enhance audit quality.</p> <p>ESMA also believes that improved communication at firm level and between the audit team members is also an important driver to develop and ensure the correct application of the professional scepticism. Professional scepticism is not only a concept to be applied by the audit engagement partners or engagement quality control reviewers but by all members of the audit team throughout the whole audit process including the planning stage.</p>

³ In the EU legal framework, Article 7 "Irregularities" and Article 10 "Audit Report" of the Audit Regulation and Article 21 "Professional ethics and scepticism" of Directive 2006/43/EC of the European Parliament and Council on statutory audits of annual accounts and consolidated accounts, as lately amended by Directive 2014/56/EU (Audit Directive).

⁵ In the EU legal framework, Article 39 of the Audit Directive states that audit committees can be either a stand-alone committee or a committee of the administrative body or supervisory body of the audited entity.

⁶ In the EU legal framework, Article 11 of Audit Regulation "Additional report to the audit committee" states that auditors have a specific obligation to report to audit committees.

		As pointed out in paragraph 38 and 39 of the Overview of the ITC, ESMA believes that the focus of auditors should be in having an open mind-set and considering the effect of contradictory audit evidence (if any). In this regard, the IAASB could also explore to use language in the standards such as “challenging management and data received” that shifts the auditor’s mind-set from one of accepting received evidence to a more sceptical attitude.
14.	H3C	<p><i>Need for appropriate recruitment and training</i></p> <p>In our view, the standards should stress the importance of considering skills in the recruitment process, and on keeping skills up-to-date through continuing education, or indeed developing new skills in relation to the changing environment (IT, financial information ...). Especially, in a context of fee pressure, these fundamental needs should not be disregarded.</p> <p><i>Ensure consistency between the ISAs, the IESBA Code of Ethics, and International Education Standards</i></p> <p>We draw the IAASB’s attention to the need to strive for alignment between the provisions of ISAs, the IESBA Code of Ethics and the International Education Standards.</p> <p><i>Importance of documenting audit work</i></p> <p>Many inspection findings point to an absence or insufficiency of audit documentation. We believe it is important to reinforce the need for sufficient, appropriate audit documentation as a vehicle for supporting and explaining the work performed by the auditor.</p>
15.	IAIS	<p>The importance of professional skepticism to an effective audit cannot be overstated, particularly given the increasing judgment and complexity in financial reporting and issues posed by the current economic environment.</p> <p>The application of professional skepticism could be better supported by acknowledging that there are a number of factors that can influence professional skepticism. Such factors include performance metrics that drive compensation, mind-set (e.g. objectivity, independence and familiarity threats), time pressures, individual traits of the auditor (e.g. integrity and fortitude), as well as environmental and contextual factors.</p> <p>The impediments and drivers for the appropriate application of professional skepticism are detailed below.</p> <p>Impediments</p> <p>There are several factors that may impede a consistent and appropriate application of professional skepticism by auditors:</p> <p>(a) The personal background of the auditor, including their behavioural traits, cultural/ environmental considerations, and competence level (especially for particular industries such as financial services) when undertaking an audit;</p> <p>(b) At the level of an engagement team assigned to a specific client:</p> <ul style="list-style-type: none"> o Time pressures to meet short filing deadlines, may limit the extent to which auditors on their engagements exercise professional skepticism in different ways: <ul style="list-style-type: none"> • less time available for actions relating to the exercise of professional skepticism, especially for those that are time consuming and cognitively demanding; and • Indirect pressure for providing an unqualified audit opinion. o Economic pressures linked to audit fees can lead to incentives to keep audit costs low and consequently discourage the application of professional skepticism that might lead to increased audit work without certainty of identifying a misstatement;

		<ul style="list-style-type: none"> o Inappropriate or out-of-date technical knowledge in key judgement areas can lead to a situation where management's information and expertise is greatly superior to that of the auditor, which may suppress the auditor's appetite to challenge management and lead the auditor to simply corroborate management's view; o Human resource constraints due to turnover and staff workloads could result in detrimental effects on the composition of the engagement team with respect to the competence and expertise needed, having an overall impact on the ability of the team to appropriately exercise professional skepticism; o Where inexperienced auditors are left to interact with difficult client management, less professional skepticism may be exercised (reduced evidence collection) as those auditors may in fact attempt to avoid interactions with management; and o Performance and compensation metrics and incentives for auditors that do not appropriately encourage professional skepticism may lead to reduced professional skepticism by the auditor. <p>(c) At the level of the audit firm:</p> <p>According to some studies, firms are reporting downward pressure on audit fees due to the economic climate, users questioning the value of an audit ("the commoditization of audit"), and underbidding by rival firms. At the same time, the growth in the advisory businesses of the firms is expected to continue to increase at a faster rate than the assurance business, through both organic growth and acquisition.</p> <p>Such trends in firm revenue, profitability and growth can have several impacts:</p> <ul style="list-style-type: none"> o Leadership of the assurance practice may play a less significant role in the governance of the firm at the network level. This could impact the level of investment in the audit service line and/or the culture of the firm and the value placed by leadership on maintaining independence, objectivity, and professional skepticism; o The assurance practice may be pressured to keep pace with growth in advisory revenues and profits, which may result in audit partners accepting new clients with riskier profiles and/or in industries where the firm has little or no experience, or incentivise audit partners to place the maintenance and cultivation of client relationships as their primary objective; o Firm leaders and audit partners may focus greater attention and more experienced resource to the advisory line of business rather than the assurance practice, despite the possible need for greater involvement and supervision by experienced auditors in the assurance practice given the growing complexity of audits and the judgement areas involved; and o Firms may be unable to effectively manage compensation and cultural challenges between the assurance and advisory lines of business. <ul style="list-style-type: none"> - Pressures relating to profitability (such as time budget pressures) may act to reduce the application of professional skepticism; - Unrealistic incentives created by office/regional performance measurement could reduce professional skepticism; and
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		<ul style="list-style-type: none"> - Excessive reliance on IT processes, in the context of the automation of audit files, may lead to reduced professional skepticism as the staff focus may be on completion of IT audit steps in a virtual environment instead of learning how to "read people," think critically, and probe. <p>Drivers</p> <p>Drivers of consistent and appropriate application of the professional skepticism by auditors will include:</p> <ul style="list-style-type: none"> - Good hiring and compensation practices, experience, training and education can foster and encourage the appropriate application of professional skepticism at the individual auditor level; <ul style="list-style-type: none"> o Incorporating ethics screening in the hiring process may help flag those individuals who may not have a propensity to apply professional skepticism; o Setting performance and compensation metrics that reward auditors for high quality work could help in increasing the application of professional skepticism. - At the engagement team level, the tone set by the engagement leadership through activities such as: <ul style="list-style-type: none"> o Effective resourcing and planning commensurate with the work to be performed, as well as considering appropriate contingency plans for dealing with unexpected developments; o Effective review and coaching by experienced members; and o Regular communication and brainstorming sessions among the team members on risk assessment and audit related matters. - Support of the tone of the engagement leader by the firm through actions, procedures and policies that effectively support audit quality.
16.	IFIAR	<ol style="list-style-type: none"> 1. We also encourage the IAASB to identify further factors that can encourage the application of professional scepticism as well as those that inhibit the application of professional scepticism. In particular we believe that the effect on the application of professional scepticism of cost and profit pressures, client relationship pressures, deadline and workload pressures and resourcing pressures within the firms, deserve further consideration.
17.	IOSCO	--
18.	IRBA	<ol style="list-style-type: none"> 42. We believe the ISAs can be further strengthened with respect to professional scepticism by including in each ISA specific requirement(s) for the documentation of the auditor's application of professional scepticism. This would strengthen the audit evidence of the auditor's application of professional scepticism and the exercising of professional judgement that will also assist those who perform internal monitoring reviews and internal/external inspections in understanding the auditor's thought process <i>[ITC question PS3]</i>. 43. In addition, we believe that the auditor's behaviour would be enhanced by including more emphasis on professional scepticism <i>throughout the audit process</i> in conjunction with further exploring behavioural, training and other issues <i>[ITC question PS3]</i>.

		<p>44. For example, we believe that more emphasis on professional scepticism is needed in the following ISAs <i>[ITC question PS3]</i>:</p> <ul style="list-style-type: none"> ISA 315 (Revised), ISA 330, ISA 500²¹ and ISA 520 – The auditor should apply professional scepticism when performing risk assessment procedures, in designing and implementing appropriate responses to those risks as well as when performing audit procedures (including substantive analytical procedures and analytical procedures near the end of the audit) so as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. ISA 320 and ISA 450²² – The auditor should apply professional scepticism when applying the concept of materiality in both planning and performing the audit, and in evaluating the effect of identified misstatements (including any uncorrected misstatements). ISA 620 – The auditor has a responsibility to apply professional scepticism when using the work of an expert. ISA 600 and ISQC 1 – The ITC²³ states that the IAASB's current efforts on quality control and group audits provide opportunities to reinforce the concept of professional scepticism. However, the quality control section of the ITC (and in particular paragraphs 125-135) does not directly deal with how firm leadership responsibility and accountability, firm culture and strategy, as well as actions by the engagement partner and engagement quality control reviewer can better promote the application of professional scepticism in audits. We draw the IAASBs attention to the need to ensure that those topics are included in the scope of the revision of ISQC 1. ISA 540 – The ITC²⁴ sets out how the IAASB will stress the importance of professional scepticism as part of its work to revise ISA 540. Accounting estimates generally involve a high level of management judgement and therefore there is an increased risk of unintentional or intentional management bias. We support the IAASB in investigating further how ISA 540 can be strengthened to improve the focus on auditors approaching accounting estimates with a more questioning mind-set and in highlighting the need to consider the effect of contradictory audit evidence that comes to the auditor's attention, rather than an approach overly focused on corroboration.
19.	MAOB	--
20.	UKFRC	<p>Drivers for, and impediments to, the appropriate application of professional scepticism</p> <p>The FRC Discussion Paper: Auditor Scepticism: Raising the Bar and feedback paper published in March 2011 highlighted a number of drivers for, and impediments to, the appropriate application of professional scepticism that have also been expressed in the ITC, particularly those set out in paragraphs 28 to 32 of the ITC. For example:</p> <ul style="list-style-type: none"> We agree that there is potential for a lack of scepticism or perceived lack of scepticism because auditors are engaged by the audited entity in a way that is relatively detached from the users of the financial statements and auditor's report. Auditors

²¹ ISA 500, Audit Evidence

²² ISA 450, Evaluation of Misstatements Identified During the Audit

²³ ITC, paragraph 38

²⁴ ITC, paragraph 39

		<p>often have little, if any, direct contact with shareholders throughout the audit process. This emphasises the importance of communications between auditors and users, and aligning performance outcomes with the user's perspective discussed in PS1.</p> <ul style="list-style-type: none"> We agree that it is important to maintain effective working relationships with management and those charged with governance. However, we do not believe that it would be appropriate to do so to the detriment of applying professional scepticism throughout the audit. The challenge for auditors is to be professionally sceptical whilst maintaining those working relationships. This is a professional skill which the auditor must acquire and maintain. In this context it is important to recognise that scepticism is neither distrust nor disbelief of management but rather maintaining an open mind (a state of 'unbelief') until the auditor has made their independent evaluation and drawn their own conclusions about a matter. Most audit firms' business models encourage a culture of building strong relationships with audited entities. This can create familiarity (trust) and self-interest threats for the auditor that could compromise their objectivity or willingness to challenge management to the extent required. There is therefore a strong link between ethical considerations and the application of professional scepticism and we encourage the IAASB to further explore these links with IESBA. Similarly there are links between the exercise of professional scepticism and the unconscious heuristic biases that may affect auditors themselves and that are becoming better understood through developments in behavioural science and we encourage the IAASB to continue to consider how such understanding can better help auditors to recognise and mitigate risks (as discussed in paragraph 37). <p>We support consideration of the areas discussed in paragraph 37, in particular:</p> <p><i>Clarifying the concept of professional scepticism (bullet 1)</i></p> <ul style="list-style-type: none"> As noted in PS1, the responses to the FRC discussion paper did indicate a lack of consensus about the initial mind-set required in the context of professional scepticism and its role in the conduct of an audit, and we therefore encourage the IAASB to consider clarifying and extending the description inherent in the three examples of its expression so that it can be consistently understood. The FRC briefing paper, Professional Scepticism: Establishing a Common Understanding and Reaffirming its Central Role in Delivering Audit Quality ('briefing paper'), links the performance outcome of the application of professional scepticism to the user perspective and a wider consideration of the nature of professional scepticism. <p><i>Clarifying in the ISAs what is expected from auditors (bullets 2, 6)</i></p> <ul style="list-style-type: none"> There is a strong call from regulators, the IAASB Consultative Advisory Group and other key stakeholders that the IAASB has responsibility to reinforce the concept of professional scepticism <u>within the ISAs</u> to enhance the robustness and consistency with which it is applied and improve audit quality. Accordingly, as noted in our response to PS1, we agree that professional scepticism needs to be enhanced in the ISAs and that this should be prioritised. However, we believe the IAASB should focus its work on the more practical aspects of professional scepticism that we have proposed in PS1 (embed the perspective of users more widely in the performance outcomes of an audit). <p><i>Developing an audit firm environment in which sceptical behaviour is encouraged (bullets 3, 4, 8, 9)</i></p> <ul style="list-style-type: none"> We also support the IAASB exploring actions set out in paragraph 37 that focus on fostering conditions necessary for auditors to demonstrate the appropriate degree of professional scepticism. As noted in our Briefing paper, the prospects for a sceptical audit are more likely to be enhanced if the environment in which the auditor operates recognises and supports
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		<p>the important role that scepticism plays in the audit. Exploring professional scepticism at the level of the firm is therefore critical to this project and should be prioritised. For example, consistent with our earlier comments regarding the importance of understanding the user perspective, it is imperative that embedded within the firm culture is the importance of understanding and pursuing the perspective of the users in making audit judgments. In addition, professional scepticism should be embedded in the firm's training and competency frameworks used for evaluating and rewarding partner and staff performance. We also agree with the IAASB that rigorous engagement quality control reviews that challenge engagement teams' judgments and conclusions are critical in influencing the appropriate application of professional scepticism.</p>
National Auditing Standard Setters		
21.	AUASB	<p>The AUASB is firmly of the view that setting the appropriate "tone at the top" both within audit firms and audit engagement teams is an essential pre-requisite to fostering appropriate professional skepticism in the training of auditors. The AUASB has noted that a number of Australian stakeholders also believe that the early years and ongoing training of auditors should reflect a suitable focus on professional scepticism, and that it was vitally important that this be properly addressed in university and professional training courses, notwithstanding resource constraints that may prevail. As an aside, it is noted that the approach adopted to encourage the development of enquiring minds, analytical and critical thinking in law studies and certain postgraduate courses should be promoted. It is also considered by others that the development of professional scepticism is related to an individual's skills and length of experience as an auditor.</p> <p>A clarification of PS perspective adopted by ISAs (i.e. neutral v. presumptive doubt perspective) and what is 'appropriate' or what (and how) different circumstances/factors impact on what is an 'appropriate' level of PS would be helpful.</p> <p>Other factors that may drive the application of appropriate professional scepticism may include: clarity of understanding of audit objectives and what constitutes appropriate audit evidence; integrity, objectivity and independence; and the level of "fortitude" demonstrated by the senior members of the audit team. Impediments such as cognitive bias; heavy workloads, resource constraints and tight deadlines; and "familiarity" and "self-review threats" are also recognised.</p> <p>It is suggested that the IAASB could develop guidance to assist the auditor to improve the determination of sufficient and appropriate audit evidence vis-à-vis the application of professional scepticism. It is further suggested that the application of professional scepticism needs to be better linked to the application of risk assessment under the ISAs and the use of professional judgement. It is also important that the IAASB works with IESBA and IAESB to bring a consistency of approach and thinking to these concepts.</p> <p>The AUASB supports the development of a PS framework (similar in concept and application to the IAASB's AQ framework). Such a framework would be well suited to this critical but complex, difficult to define and to measure, construct and allow for a more in depth consideration of various relevant factors (e.g. PS and judgement; various drivers and inhibitors such as risk, independence, evidence, etc.) and the interactions between these factors. It would also allow for practical illustration/guidance of 'appropriate' and/or 'sufficient' level of PS including documentation requirements within a specific audit context. The frameworks developed in academic literature by Nelson (2009) and Hurtt et.al. (2013) could provide a useful starting point. An IAASB framework would also provide an opportunity to expand, clarify and differentiate between PS v trust v distrust v auditor conservatism and the link, if any, between these different concepts.</p>
22.	CAASB	<p><u>Impediments</u></p> <p><u>Key impediments</u> identified by the AASB and our Canadian stakeholders were:</p>

	<ul style="list-style-type: none"> • Personality traits and cognitive biases such as confirmation, overconfidence, anchoring and availability biases • Tight reporting deadlines • Heavy staff workloads • Fee pressures • Fear of audit tendering, in particular for large clients that represent significant revenue for the audit firm • Perceived conflicting priorities between enhancing <u>audit</u> quality vs. enhancing <u>service</u> quality • Engagement team dynamics – individual skepticism may be negatively influenced by the level of skepticism of others on the engagement team (groupthink) • Lack of experience with audit engagements, which may be the case with some SMPs whose practice has a very limited number of audits • Firms having staff focus primarily on the steps and procedures in the audit, without appropriate time spent teaching the fundamental concepts. Such behaviour often is thought to drive a checklist mentality when approaching the audit. <p>In many of our stakeholder discussions, there was lengthy debate as to whether a long-term client relationship is a driver or an impediment to the application of professional skepticism.</p> <p>Some of our Canadian stakeholders were of the view that these long term relationships impede the application of professional skepticism, given the practitioner may be unduly influenced by historical experience and assume all risks are low and/or rely too heavily on management’s explanations. Other of our Canadian stakeholders were of the view that long-term client relationships enhance professional skepticism through a thorough understanding of the client’s business and their industry. Only when you have sufficient knowledge and expertise can you be appropriately skeptical of management’s actions and financial results.</p> <p>The AASB agrees with the differing views expressed by the various stakeholders, and is of the view that this is an area where guidance and application material may be beneficial. For example, guidance outlining potential safeguards to enhance the application of professional skepticism in situations where the client relationship may be relatively new, or in existence for a lengthy time, could be considered during the client acceptance/continuance stage of the audit.</p> <p><u>Drivers</u></p> <p><u>Key drivers</u> identified by the AASB and our Canadian stakeholders were:</p> <ul style="list-style-type: none"> • Personality traits – for example, certain individuals have greater fortitude to challenge management • Engagement team knowledge and competence and access to resources • Tone at the top set by the engagement partner, or in the case of a firm, audit leadership of the firm • Effective performance of an EQC review, when one is required • Competent audit committee members who ask appropriate questions of the management and of the practitioner • For the public sector – the expectation of the auditor is to identify reportable findings <p><u>Role of IAASB</u></p> <p>The AASB and our Canadian stakeholders struggled with identifying ways in which many of the impediments/drivers could be addressed/enhanced through actions of the IAASB. With the exception of a few areas, there is a limited role for standard setting.</p>
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		<p>Consequently, the AASB is of the view that the IAASB's key role is to encourage the application of professional skepticism throughout the standards in light of these challenges.</p> <p>The AASB therefore recommends that the IAASB consider:</p> <ul style="list-style-type: none"> • Including examples of common impediments, within application guidance in the standards, to remind the practitioner as to the presence of these challenges. This may help encourage the application of professional skepticism in light of these impediments. • Enhancing the application of professional skepticism when determining the appropriate direction of EQC reviews (part of the quality control section of the ITC). • Including additional discussion in ISQC 1 regarding tone at the top, specifically relating to professional skepticism, such as a requirement for periodic training or professional development to reinforce common impediments and the importance of the issue. <p>Please refer to our response to PS3 for recommendations on how the areas discussed in paragraph 37 should be prioritized.</p>
23.	CNCC-CSOEC	<p>We agree that the concept of professional scepticism should be considered pervasively across the spectrum of professional standards and guidance. As such, we strongly support the approach of a joint working group of representatives from the IAASB, IAESB and IESBA Boards aimed at ensuring a coordinated approach.</p> <p>We believe that important drivers of professional scepticism are:</p> <ul style="list-style-type: none"> – Seniority of staff The IAASB should highlight the importance of the role of the senior members in the engagement team to shape and develop the natural professional skepticism of less experienced staff. – Diversity of backgrounds Another important driver of skepticism is the diversity of backgrounds of the engagement team members. Individuals from different backgrounds (i.e. chartered accountants, engineers, business experts, ...) inevitably bring a diverse range of skills and experiences which can add value when exercising professional skepticism. – Training, education and mentoring Initial but also continuous training are important drivers for the appropriate application of professional skepticism. We consider that what is useful is to have the opportunity to share experiences and encourage more senior members to share their experiences on instances where they have been faced with an issue that required their skepticism and or their judgement. – Courage Courage is one of the most important attitude to have or to develop for an appropriate application of professional skepticism. Although it is directly linked with personal traits, such a driver of skepticism can also be developed through training, education and mentoring. – Time and the related fees

		<p>The audit teams need to have sufficient time to question the evidence received. A lack of time, i.e due to for example pressures on the deadlines or late submission of documents, and changes in the schedules constitute barriers to an appropriate application of professional skepticism.</p> <p>Finally, the IAASB should also consider that compliance and professional skepticism may be diverging forces in certain situations. Similarly unstable frameworks (auditing or accounting standards) may not favor professional skepticism.</p>
24.	HKICPA	<p>Investors, regulators and other stakeholders expect auditors to be "critical challengers". We believe some of the drivers for the application of PS include knowledge, training and performance evaluation. Audit experience together with knowledge would enable auditors to facilitate the exercise of PS and profession judgement.</p> <p>In addition, appropriate training at the professional level is also important for enhancing the skills towards PS, in particular for junior auditors. It would be beneficial and important for auditors to receive feedback from team reviewers upon completion of engagement.</p> <p>A key impediment to the application of PS is the work demand and time pressure to complete the engagement on a timely basis. This may cause auditors to apply a lower level of PS than expected and this would affect the audit quality of the audit.</p> <p>As highlighted in paragraph 32 of the ITC, environmental and contextual factors can also affect the application of PS including local norms and culture in which an auditor operates. An example cited being auditors in certain jurisdictions may be less comfortable challenging management when auditing areas in the financial statements that are highly judgemental or subjective.</p> <p>When considering the proposed revisions to enhance PS, we encourage the IAASB to consider the cultural perspective in regard to the application of PS.</p> <p>To provide additional guidance on the application of PS, we are of the view that the IAASB should:</p> <ul style="list-style-type: none"> • compile drivers and areas for improvement after consultation with regulators, the IASB and the profession • ensure concept of PS is consistently described across professional standards and consideration of how ISA 240, <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement</i> can be enhanced to embrace PS. • issue guidance on the concept of PS • develop implementation programme/training material <p>Whilst there is a general understanding of the concept of PS as defined in the ISAs, the IAASB should consider developing practical guidance on what PS is and how it should be documented, together with IAESB and IESBA. This will help to put into context IAASB's intended interpretation of PS.</p>
25.	IDW	<p>In our opinion, some of the current calls for the improved application of professional skepticism may stem from the view that when inspection findings cannot be allocated to a specific violation of a requirement in a standard, insufficient skepticism had been exercised – i.e., it represents a "catch all". Thus the scope of what may be termed "lack of professional skepticism" appears to be very broad at present.</p> <p>Indeed, we suggest that it may be too early to effectively address this issue within the IAASB's standards in a meaningful manner and would encourage the IAASB to perform more research in this area to identify exactly what professional skepticism comprises and when it would not have been applied appropriately. In this context, we believe that thorough root cause analyses would be helpful in exploring further the extent to which inspection findings indeed indicate a lack of professional skepticism.</p> <p>In our view, the drivers and impediments that standard setters may influence include:</p>

		<ul style="list-style-type: none"> • The relevant concepts of the IESBA Code and the IESs as set forth in para. 23 of the ITC • The incentives and disincentives within a firms system of quality control <p>Drivers and impediments that are largely beyond the control of standard setters include:</p> <ul style="list-style-type: none"> • The personal traits of individual auditors • The culture in the jurisdiction. <p>One of the matters the IAASB could consider is whether it can reduce bias in its requirements, e.g. by not only requiring auditors to obtain evidence (merely) to confirm information. However, this issue would need to be addressed carefully so as not to change the audit model to one of seeking to disprove management assertions, which would involve an audit effort of more than an order of magnitude greater than is currently the case by changing the audit into a forensic-type audit.</p> <p>The most important issues identified in paragraph 37 from our viewpoint include:</p> <ul style="list-style-type: none"> • Clarifying what is meant by professional skepticism to ensure a consistent understanding across ISAs, IESs and the IESBA Code • Exploring whether existing references to professional skepticism are clear as to expectations of auditors, including the need for evidence of the application of professional skepticism • Exploring what actions by firms could enhance professional skepticism. For example, a QMA could be expected to include due consideration of firm-level risks to the appropriate exercise of professional skepticism and responses at a firm level. Firms could be proactive in supporting the exercise of professional skepticism by using training, incentives etc. In addition, in performing root cause analyses, firms could specifically consider whether inappropriate application of professional skepticism is an issue they need to address. <p>We do not believe that areas such as personal traits and how particular culture(s) impact the exercise of professional skepticism can realistically be addressed by the IAASB. However these are key impediments and may be more or less pronounced in individual jurisdictions around the world.</p> <p>Rather than developing a framework for professional skepticism, which would involve a degree of understanding about the issue that is not available yet, we believe it would be helpful for the IAASB to develop principles for how professional skepticism is to be taken into account in its standard setting.</p>
26.	JICPA	<p>We believe that one of the key drivers for the appropriate application of professional skepticism is the firm culture. Therefore, we support that the IAASB is planning to address it in the revision of ISQC 1. Also, to facilitate common understanding of auditors and other stakeholders, we believe it is appropriate that the IAASB's explains its views on the following two areas discussed in paragraph 37, in the non-authoritative guidance (such as an International Auditing Practice Note (IAPN)), but not in the standards:</p> <ul style="list-style-type: none"> • The nature of auditor's personal traits and biases that may inhibit the appropriate application of professional skepticism • How the technical nature of these concepts can be better brought to life in the auditor's understanding of the purpose of an audit and with respect to stakeholders' expectations about how professional skepticism is to be applied. <p>On the first bullet, we believe that the insights into the nature of auditor's personal traits and cognitive biases (including judgment traps and tendencies) not only helps an individual auditor to look back himself/herself, but also helps to improve the training and capability development system that facilitates the exercise of professional skepticism.</p>

	<p>On the second bullet, linking the role of the audit (i.e., to enhance the degree of confidence in the financial statements by expressing the opinion of the independent auditor) to the concept of professional skepticism would facilitate a common understanding of the level of professional skepticism that the auditor is expected to apply. For this purpose, the explanation should cover the following:</p> <ul style="list-style-type: none"> • The audit is conducted for the users of the auditor's report, and the auditor is in a position to challenge management assertions on behalf of the users of the auditor's report. • The question as to whether the auditor appropriately applies professional skepticism should be considered in light of whether the auditor, as a professional, can be accountable to the users in his or her claim that the audit evidence obtained was persuasive. <p>Explanations such as these help remind the auditors that the customers of the audit services are the users of the auditor's report, not the management of the entity being audited. They may also help alleviate the weaknesses of the current audit fee model (in which the auditors receive the audit fees from the audited entities).</p> <p>Further, we believe that the following are important areas to consider:</p> <ul style="list-style-type: none"> ◆ <i>Application of professional skepticism in risk assessment</i> The application of professional skepticism is critically important in risk assessment procedures, given that the risk assessment affects the entire audit process and determines how the rest of the audit is conducted. We therefore propose that the IAASB explore how the application of professional skepticism is strengthened in the risk assessment. ◆ <i>The relationship between the result of the risk assessment and the neutral stance</i> We understand that the current ISAs are written based on a neutral perspective on professional skepticism, where the auditor neither assumes that management is dishonest nor assumes unquestioned honesty. We recognize, however, that there are mixed views and various interpretations between stakeholders on the relationship between the assessed risk and the auditor's basic mindset. If, for example, the auditor assesses that a risk of fraud exists (or risk of fraud is high) on a specific assertion on a specific account, there are mixed views as to whether the auditor's mindset should still be considered "neutral." If the auditor assesses that a risk of fraud exists, the standards require the auditor to obtain more persuasive audit evidence. However, the standards do not explicitly clarify whether this affects how the auditor obtains audit evidence (i.e., whether the auditor should design audit procedures to obtain audit evidence that contradicts the management's assertions). The answer to this issue relates to the fundamental concept of professional skepticism and affects the requirements in the ISAs. We therefore propose that the IAASB explore this issue and clarify the IAASB's view. ◆ <i>Constraining factors (including audit time)</i> As explained in paragraph 31, other factors related to the audit can inhibit the auditor's application of professional skepticism. In particular, we have heard concerns that the following factors may have such an inhibitory effect: <ul style="list-style-type: none"> – Time and resource pressures – Tight deadlines in the financial reporting schedule – Increased staff workload (including necessary audit documentation) incurred by the auditing standard enhancements. The clarified ISAs, for example, not only clarify but also add significant new requirements. <p>We understand that the IESBA recently established the Fees Working Group (WG). One of the objectives of the WG is to undertake fact finding on fee-related matters to identify whether there are trends or other factors that indicate a relationship between fees and</p>
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		threats to auditor independence and compliance with the fundamental principles such as objectivity and professional competence and due care. Audit fees are usually calculated based on the level of experience of audit team members and time spent. The WG's fact finding results on a relationship between fees and due care could lead to findings on environmental factors that inhibit the auditor's application of professional skepticism. We expect that the finding results will be communicated to various stakeholders through the IAASB's and IESBA's outreach activities, to help improve the audit environment.
27.	MAASB	<p>We broadly agree with the list of factors that influence application of professional scepticism in paragraphs 28 to 32. In addition to the factors mentioned in paragraphs 28 to 32, the culture of keeping silent under intense pressure from aggressive clients is an impediment, which is still prevalent. The fear of losing the audit engagement and consequently, being 'punished' by the audit firm management remains real. Accordingly, it is essential to address impediments to the application of professional scepticism at four levels: individual (as a staff and as a partner), engagement, firm and profession.</p> <p>It is especially important to recognise that effective application of professional scepticism by auditors is subject to personal traits and behavioural factors such as the overall culture and society norms. Firms also play an important role in cultivating a sceptical mindset in auditors as firms have better understanding of the root causes of poor application of scepticism.</p> <p>Accordingly, we consider that priority should be given to:</p> <ul style="list-style-type: none"> • Emphasising and enhancing the importance of the "tone at the top" and roles of engagement partners, engagement quality control reviews, audit committees, audit oversight bodies and others in influencing the appropriate application of professional scepticism. • How auditors can be effectively trained and their competencies further developed. • Whether the current requirements and guidance in the ISAs that refer to professional scepticism are clear as to what is expected from auditors. <p>In reviewing the current requirements and guidance in the International Standards that refer to professional scepticism, we do believe it is appropriate to consider, and where appropriate to revise, the language adopted in the ISAs to better reinforce a sceptical mindset. There are certain requirements in the ISAs that may unduly promote a mindset of seeking to validate the assumptions and judgements adopted by management. This is particularly of relevance in areas involving significant management judgement, including accounting estimates that have high estimation uncertainty. A more independent evaluation may perhaps encourage scepticism.</p>
28.	NBA	<p>We refer to our general comments. We believe that it should be clear to society that an increased level of professional skepticism will lead to material and immaterial costs.</p> <p>We believe that audit deficiencies are attributed too much to professional skepticism. Root cause analysis might indicate that there are other reasons. Poor application and/or documentation of professional judgment might also be a root cause of audit deficiencies.</p> <p>We question whether professional skepticism can be enhanced by more requirements. Professional skepticism is an attitude ('state of mind') that is subject to behavioral factors and personal traits. We recommend the IAASB to consider whether this can be done in a different way. We do consider training and education to be more useful in enhancing professional skepticism. Furthermore, technology can be used as a powerful tool to help the auditor in applying skepticism e.g. by using data analysis to filter exceptional situations that need to be investigated..</p>
29.	NZAuASB	Drivers for the appropriate application of professional scepticism are:

		<ul style="list-style-type: none"> • Appropriate tone at the top (firm and engagement level) • Clarity and understanding of audit objectives (by the auditor and TCWG) • Clarity and understanding of what constitutes acceptable evidence • Integrity, objectivity, independence of mind, professional competence, skills and due care in applying professional judgement • Fortitude (strength of mind to deal with matters arising during the course of the audit with courage) <p>Impediments to the appropriate application of professional scepticism are:</p> <ul style="list-style-type: none"> • Cognitive bias • Personality traits • Cultural or local norms • Tight deadlines • Fee pressures • Fear of upsetting the client • Performance criteria used in evaluating auditors tend to be anchored towards economic factors (for example, the engagement is completed within the agreed fees, audit client is happy, etc.) • Anchoring towards client explanations (especially by the inexperienced auditors) • Heavy workloads • Resource constraints • Over familiarity with client • Checklist approach to audit, not understanding audit objectives (for example, through use of technologies to support the application of audit methodologies) • Auditing of “own” work – self review threats. This could also be caused by the auditor becoming too involved in the process due to insufficient understanding by management. • How auditors are appointed and their remuneration fixed may not appropriately accommodate their independence from those responsible for the financial statements. The current payer/selector model for audit services negatively affects private sector auditors’ ability to raise difficult issues with their clients compared to public sector auditors. <p>What role should the IAASB take to enhance the drivers and address the impediments?</p> <p>The NZAuASB agrees with the areas being explored by the IAASB as set out in paragraph 37 of the ITC.</p> <p>How to prioritise?</p> <p>The NZAuASB considers that priority should be given to:</p> <ul style="list-style-type: none"> • How auditors can be effectively trained and their competencies further developed. A focus on training auditors to demonstrate higher levels of professional scepticism will provide a better avenue for improving the application of the concept in practice. Audit standard setting and additional guidance is unlikely to be effective on their own or in isolation unless
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		<p>these measures are complemented by appropriate training and education. The NZAuASB points to the training programme developed by Chartered Accountants in Australia and New Zealand (demonstrated at last year's NSS meeting) as a tangible example of how best to address the underlying challenge of ensuring auditors are demonstrating appropriate levels of professional scepticism in the performance of their audit responsibilities.</p> <ul style="list-style-type: none"> • Emphasising and enhancing the importance of the 'tone at the top', and the role of engagement partners, EQC reviewers, audit committees, audit oversight bodies, TCWG and others in influencing the appropriate application of professional scepticism. • Linking the application of professional scepticism to the risk approach more clearly in the standards, in particular those that address the audit of highly judgemental or subjective areas. In particular, emphasising the importance of professional scepticism in the decision to accept or continue an engagement. • Clarifying what constitutes evidence of the application of professional scepticism and further guidance on how auditors should document the application of professional judgement in their working papers. <p>The NZAuASB considers that the diagram on page 13 of the ITC very aptly illustrates how professional scepticism drives action and how the documentation of professional judgements made, and actions taken, may provide evidence that professional scepticism was applied. Further guidance on how to better document the auditors' thought processes, various scenarios considered etc. when dealing with highly judgemental matters may better demonstrate the application of professional skepticism to regulators and may also encourage auditors to better apply professional scepticism. However, the IAASB should remain mindful that the primary purpose of enhancing the nature and extent of documentation should focus on improving audit quality, rather than the implementation of requirements that may be perceived as being for the primary benefit of the Regulator.</p>
Accounting Firms		
30.	BDO	<p>Our answers to PS 1 highlight a number of drivers and impediments to the appropriate application of professional skepticism. With respect to the role that the IAASB can undertake to enhance those drivers and address impediments:</p> <ul style="list-style-type: none"> • When determining an appropriate application of professional skepticism, there may be an opportunity to consider the impact of factors that can affect the broader concept of professional judgment within the team. This could include considerations, such as: <ul style="list-style-type: none"> ○ Groupthink – desire for consensus, conformity or harmony leading to individuals setting aside their own beliefs; ○ Anchoring - making assessments by adjusting from an initial value and by an insufficient amount rather than making an independent determination of the evidence; ○ Rush to solve – a tendency to want to immediately solve a problem by making a quick judgment; ○ Judgment triggers – using shortcuts, simplifying strategies or rules of thumb to make decisions; ○ Over-confidence – the decision maker overestimating his or her abilities

		<ul style="list-style-type: none"> ○ Confirmation – seeking and putting more weight on the decision makers’ initial preference or opinion; and ○ Availability – using information which is easily available either physically or based on what comes to mind. <ul style="list-style-type: none"> • The IAASB could provide more implementation support on the importance of professional skepticism being an attitude of mind and that a key attribute is the ability to determine the level and extent of professional skepticism that has been applied in any given circumstance. Additional guidance could be provided on personality traits that directly impact professional skepticism. • It is important that the IAASB does not focus only on drivers and impediments to professional skepticism, but also provides examples of how outcomes indicate professional skepticism has been appropriately exercised. One way of doing this could be through the provision of a professional judgment framework that could provide analyses of particular scenarios and demonstrate how a conclusion was reached in practice. • There should be guidance that clearly distinguishes professional skepticism from a professional judgment framework. While professional skepticism is a fundamental component of professional judgments, such judgments also involve other factors such as expertise in accounting, auditing, and other technical areas and the ability to consider all relevant factors. <p>With respect to the identified priorities in paragraph 37, in our view the IAASB should reprioritize to ensure that there is a greater focus on:</p> <ul style="list-style-type: none"> • Example scenarios so that different situations can be brought to life in the context of an audit. The use of a professional judgment framework would be helpful. • The importance of engagement partners and senior engagement team members providing leadership to ensure that on-the-job training and ‘good practice’ behavior is demonstrated and shared. This could be explicitly linked through the IAESB’s learning outcome requirements in IES 8⁵. • Whether there are ‘specific actions that firms should take to address professional skepticism, including consideration of the effect of firm culture on the application of professional skepticism’ we understand that the Joint Working Group is exploring this. The Joint Working Group could consider the impact (both positive and negative) of the adequacy of general business knowledge and knowledge about the entity when applying an appropriate level of professional skepticism. There may be instances where there is over-reliance on client sources of information when forming an understanding about the entity. Professional skepticism is potentially compromised when engagement teams fail to consider external factors (such as industry, regulatory and economic impacts) or other sources of information. Accordingly, the Joint Working Group should consider drivers of behavior that inappropriately discourage auditors from considering information from other sources (both within and external to the audit client). <p>Use of data analytics and other technological tools that enable the auditor to understand the business better, form expectations, and identify outliers that would trigger a skeptical reaction.</p>
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⁵ International Education Standard 8 – *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)*

31.	CHI	<p>The pictorial on page 13 appropriately, clearly and simply, illustrates the drivers. There are many potential impediments, but we would draw attention to the following:</p> <p>Culture. There are cultural impediments such as in environments where there is a respect culture. In a respect culture it can be difficult to challenge the view of a superior.</p> <p>Status of audit. There are environments in which audit has a low status or is regarded as a “commodity”. If audit has a low status, then this impacts upon how scepticism is applied.</p> <p>Education. The education of many auditors would have not addressed professional scepticism in much, if any, detail. Some auditors may therefore have difficulty with relating to the way that this concept is evolving.</p> <p>IAASB’s role in enhancing the drivers and addressing impediments is through education, communication and collaboration.</p> <p>Impediments such as culture and status can be addressed over time through working with and supporting national regulators and standard setters, professional bodies and professional educators. The reasons for these impediments have to be both understood and recognised. Addressing these impediments may be part of a wider effort to address the societal role of audit in the particular location.</p> <p>Education, for entrants to the profession, trainee auditors and existing professionals is important. Professional scepticism is not easy to teach. Therefore innovation and imagination is required in developing education programmes. These programmes have to see the “bigger picture” of the public interest and the role of audit in society and an effective economy.</p> <p>A co-ordinated approach involving IAASB, IESBA and IAESB is important. An obvious priority is to ensure that the three sets of standards take a consistent approach towards professional scepticism.</p> <p>The list of areas being explored is clear and appropriate. We would give priority to the areas concerning:</p> <ul style="list-style-type: none"> • Culture, both local and firm related; • The role of engagement partners, EQCR, TCWG and oversight bodies; • The impact of technology; and • Developing innovative and imaginative training and education solutions.
32.	DTT	<p>The drivers to the application of professional skepticism are those factors which enable the auditor to critically challenge management’s judgements and consider alternative assertions to those communicated by management in the financial statements. DTTL recognizes firm leadership and accountability (i.e., tone at the top) as one of the key contributing factors in focusing engagement teams on the application of professional skepticism. On the other hand, the impediments are those factors that inhibit the auditor’s consideration of possible alternative outcomes; these factors include the effect of culture, leadership, education, and experience.. Of the areas noted in paragraph 37, DTTL believes that the following are particularly important:</p> <ul style="list-style-type: none"> • In relation to key judgments in areas that are more complex and where more subjectivity is involved, more examples should be given on what the application of appropriate skepticism looks like during audit execution. This is important for auditors, the audited entities and regulators alike. • Enhanced guidance should be provided regarding the appropriate documentation to evidence challenge and the consideration of potential alternative outcomes when making professional judgments based on facts available at the time. DTTL recognizes that auditors do often challenge management in exercising professional skepticism but the related

		<p>documentation may only reflect the outcome of decisions rather than the processes and considerations which led to such conclusions; focusing on how audit documentation can effectively reflect the auditor's considerations would be beneficial.</p> <ul style="list-style-type: none"> The language of skepticism and challenge is reinforced in the standards through additional emphasis, guidance, and examples as standards are updated and revised, and developing an approach for doing so. <p>Please refer to the executive summary for more discussion regarding the above and additional comments.</p>
33.	EYG	<p>From a practitioner perspective, we believe that the drivers to the appropriate application of professional skepticism are:</p> <ul style="list-style-type: none"> ► <i>Knowledge</i>: A sufficient understanding by the auditor of both the audit process and the entity, including an appropriate awareness of the risks that affect financial reporting, including specifically understanding how management and those charged with governance set an appropriate tone-at-the-top that influences the culture of the entity to value integrity in financial reporting ► <i>Skills and competencies specific to the application of professional skepticism</i>: The ability of the auditor to understand the concept of professional skepticism and apply it in a disciplined and methodical manner in the conduct of the audit; such skills include the auditor being sufficiently aware of the behavioral tendencies, circumstances, or biases that may affect the appropriate application of professional skepticism ► <i>Appropriate exercise of professional judgment</i>: The ability of auditors to successfully connect the application of professional skepticism to the exercise of their professional judgments ► <i>Tone-at-the top</i> : The appropriate emphasis on professional skepticism by the most senior members of an engagement team, but also by firm leadership and within the firm culture <p>We would view the impediments to professional skepticism to be the inverse of the above (e.g., failure to acknowledge unconscious biases; failure to take into account contrary evidence or overreliance on management representations/prior year or legacy conclusions; influence of tight time commitments or lack of resources; lack of relevant knowledge; lack of appropriate review or supervision).</p> <p>From an IAASB standpoint, we would prioritize actions that the IAASB can take to support the drivers indicated above. Of those listed in paragraph 37, we believe the following areas would be most useful for the IAASB to explore:</p> <ul style="list-style-type: none"> ► <i>Development of a professional skepticism framework, including enhancements to the ISAs to support the appropriate exercise (and documentation) of professional judgment (as advocated in our response to PS1)</i>. In making enhancements to the ISAs, we believe the IAASB should give specific consideration to how the ISAs (in the language used and/or in the nature and extent of additional guidance) can assist in auditors acknowledging and overcoming unconscious and cultural biases. And, we believe it is beneficial for the IAASB to consider more specifically what constitutes the appropriate application of professional skepticism in particular contexts (e.g., performing risk assessments, auditing estimates, evaluating the work of an expert). ► <i>Enhanced understanding of the linkage of the relative roles of the engagement partner, the engagement quality control reviewer and firm leadership/culture to the appropriate application of professional skepticism</i>. As part of the planned consideration enhancements to the ISAs or ISQC 1 as they relate to the responsibilities of the engagement partner and engagement quality control reviewer (refer to our response to QC2 and QC6) and group engagement partner (refer to GA4), we believe specific consideration should be given to their respective roles related to professional skepticism.

		<p>➤ For example, we believe the engagement partner is responsible for setting an appropriate engagement tone-at-the-top and instilling a responsibility for audit quality in all engagement team members, including a responsibility for determining whether the appropriate conclusions have been reached. The engagement partner also is responsible for bringing his/her knowledge and experience into the auditor judgments that are made throughout the audit, including giving consideration as part of their review process to the potential for biases of engagement team members or management. For group audits, we believe that the role of the group engagement partner includes setting an appropriate group audit tone-at-the-top that instills responsibility for audit quality not only in the group engagement team members but that extends to the component auditors.</p> <p>➤ As it relates to the engagement quality control reviewer, we believe there is a direct linkage between this role and professional skepticism that is derived from the responsibility to provide an objective evaluation of the significant judgments made and the conclusions reached by the engagement team (i.e., in simplest terms, the engagement quality control reviewer could be viewed as a “hired skeptic”)</p> <p>➤ Firm culture should include tone-at-the-top and performance management policies that promote the appropriate application of professional skepticism. The objectives of firm policies (including for methodology and tools) should include supporting the appropriate exercise of auditor judgment, including the appropriate application of professional skepticism.</p> <p>In addition to the actions listed in paragraph 37, we believe that the IAASB could explore the higher level relationship between the purpose of the audit and professional skepticism in order to provide greater context around how professional skepticism is applied in the evaluation of management’s assertions (refer to our response to PS1).</p>
34.	GTI	<p>Professional skepticism is the cornerstone of a quality audit, however difficulty in its application arises in a number of areas:</p> <ul style="list-style-type: none"> • Stages of the audit – The ISAs include more substantive discussion of professional skepticism in ISA 200 and ISA 240. This encourages the auditor to consider skepticism at the planning stage of the audit, with other ISAs including reminders that the auditor should apply professional skepticism in the performance of their procedures (for example, ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, paragraph A40; ISA 550, Related Parties, paragraph 7 and A9; and ISA 610, Using the Work of Internal Auditors, paragraph A14 and A26. However, referencing professional skepticism in the ISAs that address the performance and completion of the audit is not consistent through the ISAs and may not result in its application being in the forefront of the auditor's mind when performing audit procedures. • Pressures – There may be a limited amount of time in which to complete the audit procedures due to either tight deadlines and/or budgetary constraints. Also, certain interactions with the client may give the auditor a more accepting mindset, for example, the client's management may put pressure on, or persuade, less experienced auditors to accept its position as the appropriate or only position. It is also more difficult for the auditor to apply professional skepticism when assessing facts and circumstances that management has not considered than in situations where the auditor is assessing facts and circumstances that management has considered. • Culture – Some jurisdictions or firms may have a culture in which questioning client policies, procedures and judgments is not considered to be acceptable. Applying the appropriate level of professional skepticism in such circumstances may be virtually impossible.

		<ul style="list-style-type: none"> Personal traits – Not all personnel will have the same starting point when applying professional skepticism, some will naturally be more accepting of a client explanation whilst others will naturally ask more questions. Thus two individuals could likely exercise different levels of professional skepticism to the same situation if they are unaware of their natural tendencies. Independent reviews – Independent review, performed subsequent to an audit may erroneously attribute any findings to the lack of application of professional skepticism due to the benefit of hindsight. Technology – As technology within the profession develops, it facilitates the completion of audit procedures with less face to face contact both within the team and with management of the client, thus subtleties in behavior and questions resulting from those behaviors may be missed. Further, training is becoming more web-based resulting in less on-site coaching and mentoring, thus reducing the opportunities to share personal experience through open discussion. Client relationships – Engagement teams may have a tendency to identify the client as the management of the company rather than its shareholders, and teams might find it more difficult to challenge management if management is viewed as the key to client retention. <p>With respect to personal bias, the IAASB may want to consider further research and outreach regarding how auditors can become more cognizant of their personal bias towards accepting information as true. This investigation on self-awareness of personal biases may be more relevant and useful than trying to train a professional on the broad topic of professional skepticism. However, caution should be exercised when analyzing the results of such efforts and determining the appropriate actions.</p> <p>Firm culture and the provision of training, however, do have an impact on the level of professional skepticism exercised by team members in the performance of an audit. The IAASB might want to consider further exploration of the role of coach and mentoring in the development and application of professional skepticism. However, we do not believe that the inclusion of requirements for firm training or governance regarding professional skepticism in the ISAs is appropriate. We are of the view that responsibility should still lie with the firms to ensure that their partners and staff are well trained and have the appropriate level of experience to demonstrate professional skepticism for the work assigned to them. It may therefore be appropriate, as part of the project to revise ISQC 1, to incorporate guidance for firms to develop appropriate policies and procedures that allow for the application of professional skepticism in the performance of an engagement.</p> <p>Further, to clarify how professional skepticism may be applied through all stages of the audit, practical examples could be incorporated into the ISAs to demonstrate how professional skepticism may be applied.</p>
35.	KPMG	<p>The IAASB Glossary of Terms definition of Professional Skepticism currently describes this as an “attitude, including a questioning mind”. We are supportive of this description, and do not consider that the definition itself should be amended, although we consider that, as a fundamental mindset, which requires the exercise of significant professional judgement, the concept is somewhat elusive and this can result in difficulties in its application. Accordingly, we welcome the IAASB’s considerations in this area, to attempt to clarify the meaning of “professional skepticism” and to help auditors and others both to apply this in practice and to demonstrate that they have applied the concept appropriately. (PS 1 and PS 2)</p> <p>As an underlying mindset / behaviour, the application of which is a critical attribute of an auditor, we do not believe that issues in this area can be properly addressed solely by changes to the IAASB’s standards.</p> <p>We consider that Firms are best placed to drive appropriate application of professional skepticism since Firms are able to: (PS 2)</p> <ul style="list-style-type: none"> Recruit the right individuals with an appropriately skeptical mindset;

		<ul style="list-style-type: none"> • Provide high quality training to support auditors in further developing their critical thinking skills to enable them to exercise appropriate professional skepticism; • Create and implement appropriate policies, procedures, incentives / rewards and mechanisms of accountability to promote professional skepticism on audits; • Develop appropriate support mechanisms such as providing auditors with the requisite knowledge and experience and assigning tasks that are appropriate to the level of experience.
36.	PwC	<p>We consider that the list of factors that influence application of professional scepticism in paragraphs 28-32 is largely comprehensive.</p> <p>Further to our comments in response to question PS1, in framing the debate, we believe it is important for the IAASB to explore what is behind some of the criticism. We believe that at least some of the differences in perception regarding scepticism will only be resolved through dialogue at a more granular level. In relation to accounting estimates, for example, exploring:</p> <ul style="list-style-type: none"> • What is considered to be sufficient challenge of key management judgements in making an estimate? Or perhaps worded a different way, what constitutes sufficient appropriate audit evidence in relation to those judgements? • What is expected in audit documentation to clearly demonstrate the challenge and evaluation that took place over management's judgements? <p><i>Challenge</i></p> <p>We agree that it is appropriate to consider, and where appropriate to revise, the language adopted in the ISAs to better reinforce an independent and challenging mindset. There are certain requirements in the ISAs that may unduly promote a mindset of seeking to validate (corroborate) the assumptions and judgements adopted by management. This is particularly of relevance in areas involving significant management judgement, including accounting estimates that have high estimation uncertainty. Where appropriate, seeking to promote a more neutral attitude that avoids a drive towards corroborative evidence may bolster scepticism.</p> <p>However, we have real concerns about amending the ISAs to focus on seeking “disconfirming evidence”, a move that we consider a step too far, as the boundaries of the extent of the auditor’s work effort then become unclear – how far does the auditor have to go to ‘seek out’ all possible alternative evidence? Often, such evidence may not exist and this risks an open-ended ‘search’ obligation being imposed. Such a shift would be a significant change in the overall concept of the audit itself.</p> <p>We also agree with the assertion made in the GPPC paper that “in the absence of known errors, red flags, or other risk conditions suggesting a high risk and susceptibility of material misstatement, always applying a presumptive doubt mindset across all assertions of varying risk may lead to unnecessary cost being imposed on the reporting entity and ultimately on investors. On the other hand, overuse of a neutral approach may result in failure to obtain sufficient appropriate evidence in areas with higher susceptibility to fraud or material misstatement.”</p> <p>In seeking balance it is important to reinforce the principles that in considering the reliability of audit evidence, the auditor may accept records and documents as genuine unless having evidence to the contrary. Some audit evidence, accounting records and other documents require less judgement to evaluate and will inevitably require less ‘challenge’. Scepticism is applied throughout and at all stages of the audit, but it is most critical in those areas of significant management judgement.</p> <p>We also believe that professional scepticism needs to be applied taking into consideration the applicable financial reporting framework that is the subject of the audit. For example, some of the challenge directed at auditors seems to come from the</p>

	<p>perspective of an expectation that auditors can be the guardians of prudence. However, auditors cannot impose an objective that is not inherent in the financial reporting framework itself. Where supported by audit evidence auditors rightly request management to correct identified misstatements, and challenge management's judgements in that context. It is important to not lose sight of the fact that management is responsible for preparing the financial statements in accordance with the financial reporting framework, and the judgements that entails.</p> <p><i>Documentation</i></p> <p>In the majority of cases, auditors do apply appropriate professional scepticism in performing their work and at least some of the issues raised are primarily related to the sufficiency of audit file documentation reflecting fully the consideration of alternative evidence and challenge that did in fact take place. Considering the language adopted in the ISAs to encourage a more challenging mindset, as described above, may help address and promote better documentation of these considerations.</p> <p><i>Evidence</i></p> <p>As we note in our covering letter, we encourage the Board and other stakeholders to fully explore the underlying issues to help resolve debates that relate more to questions over the sufficiency of audit evidence in particular circumstances.</p> <p><i>Other factors</i></p> <p>In addition to our support for a scepticism continuum, as described in our response to question PS1, we also consider that there is benefit in exploring the impact of factors that can threaten or enhance professional scepticism at different structural levels: individual auditor, engagement team, audit firm², and overall audit profession, as described in the GPPC paper. We believe this has merit, as a more granular evaluation of the factors that may impede effective application of scepticism will help validate whether identified actions are responsive to those underlying drivers.</p> <p>We also believe it is of particular importance to recognise that effective application of professional scepticism is subject to behavioural factors and personal traits. These behavioural biases (and underlying behavioural economic principles) whilst systematic and predictable, are not immediately obvious to those committing them, and include:</p> <ul style="list-style-type: none"> • Confirmation bias: the human tendency to search for and place undue value on information confirming our subconscious, preconceived narratives – such as the risk level of material misstatement for a particular audit engagement. • Herding and “groupthink”: the inclination for teams to conform to a consensus decision without critical evaluation, inhibiting audit team members from voicing sceptical opinions that may challenge an articulate, senior team member. • Familiarity bias: the affinity to favour the familiar, leading to the attribution of favourable intentions to long-standing clients or team members. • Availability bias: judgements concerning how likely an event may be are directly correlated to the ease with which the event comes to mind, undervaluing risks that are difficult to recall but are as equally likely to occur. • Future discounting bias: the possibility that individuals may undervalue the impact of events that take place in the future - for example, the impact of a lawsuit due to audit failure may be under-appreciated if it's not immediate and present. • Priming: whereby environmental cues may influence certain types of behaviour (for example if certain language used in standards “promotes” actions that do not support appropriate scepticism – as described above).
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² References to “firm” throughout our question responses are intended to mean a firm that is a “member firm” of a network.

		<p>How these individual auditor behaviours, inherent conscious and unconscious biases, impact the application of professional scepticism is critical to understanding how to better promote its consistent application.</p> <p>Consequently, given the importance of these factors in driving application of professional scepticism, we believe that coaching and mentoring by experienced team members, setting the tone within the team, supported by firms' training – based on a better understanding of the root causes of poor application of scepticism – is likely to be a compelling driver in influencing and reinforcing practice. And, for these reasons, it is important that the education standards board plays a key role in the work of the Joint Working Group. Simply adding additional references to scepticism throughout the standards will not be effective in driving behaviour. However, recognising these driving factors in application material may help raise awareness and therefore be an appropriate action.</p>
37.	RBI	--
38.	RSM	<p>In practice there are many factors that drive Professional Skepticism as described in paragraph 37. Creating a clearer understanding of what is meant by Professional Skepticism, including the behavioral aspects described above, is an essential foundation of this work. Of critical importance is the role of senior professionals involved in the audit process including "... engagement partners, EQC reviewers, audit committees, audit oversight bodies and others ..." for it is they who, amongst other things, recruit and promote personnel, review and inspect engagement files, devise action plans to address deficiencies, design methodologies and training, and appoint firms of auditors who demonstrate a commitment to quality in the conduct of their audits. Enhancing senior professional's ability to understand and apply Professional Skepticism is a priority.</p>
39.	SRA	<p>The areas of investigation suggest that a substantial number of actions will be required to safeguard the adequate application of professional skepticism. We do not agree with this suggestion. However, in our view there is a need to more clearly describe the limitations of an audit of financial statements. Taking into account that usefulness and costs should be balanced, it should be made more clear when the auditor can conclude that he has enough comfort to be able to draw a conclusion on the audit.</p> <p>Regarding drivers and impediments on professional skepticism reference is made to the Dutch project "In the public interest".</p>
Public Sector Organizations		
40.	AGC	<p>Within a public sector legislative audit office, professional skepticism may also be threatened by long tenure and inflexible cost structures. Legislative auditors with long tenure face familiarity threats that need to be actively managed in order to ensure professional skepticism is not put at risk. Further, a legislative audit office funded by parliamentary appropriations rather than client billings may benefit from increased independence, but will also face short-term pressures to contain audit effort to that originally budgeted in order to complete all statutory and discretionary engagements within available funding limitations. Short-term increases in audit effort may not be easily absorbed within authorized funding levels. This may negatively impact an auditor's willingness, capacity or perception as to the extent to which they may apply skepticism.</p> <p>In our view, the above constraints and conditions are largely internal to the audit firm conducting the engagement and the appropriate response to these threats to professional skepticism rest primarily within the legislative audit office. Rotation and other strategies to manage familiarity risks should be in place to enable the appropriate application of professional skepticism. Firm level audit resource allocations should recognize that some engagements may require more resources than originally planned to address unanticipated issues including those arising from the application of professional skepticism. Firms must ensure budgets and related performance measures do not in fact or appearance unduly constrain the application of skepticism.</p>

41.	AGSA	<p><u>Drivers of the appropriate application of professional scepticism</u></p> <ul style="list-style-type: none"> • A culture in the audit firm that encourages and embraces high quality of audit work. • Less emphasis on meeting cost and time budget or deadlines as this may compromise the quality of work performed and hamper the auditor's ability to effectively apply professional scepticism during the audit. • Good management of staff resources during busy and high pressure seasons. This would include better allocation of work to engagement managers in order to allow them to have sufficient time/ capacity to be involved in planning, directing and reviewing the work performed. • Competence and skilled team members who have a deep understanding of the auditee they audit and complex issues that arise as well as an effective training programme within the firm. • The understanding among auditors of the concept of professional scepticism and the documentation requirements. • Adequate guidance from IAASB regarding the concept of professional scepticism, application thereof and the documentation requirements <p><u>Impediments to the appropriate application of professional scepticism</u></p> <ul style="list-style-type: none"> • The lack of detail in the definition of professional scepticism and lack of guidance relating to how this can be demonstrated is an impediment to the appropriate application of the concept. The current definition is broad and doesn't impose a requirement for the auditor to document the professional judgement exercised to demonstrate application of professional scepticism. • The lack of understanding among auditors of the concept of professional scepticism. • Pressure on the audit firm to cut costs and reduce the head count which may result in each engagement manager being responsible for many auditees or having high work load. This may result in less involvement by the engagement manager during the audit resulting in inappropriate application of professional scepticism. • Pressure on the firm from the auditee to reduce audit fees may result in the inappropriate use of the concept of professional scepticism to inappropriately reduce the nature and extent audit work performed on material balances. This may also contravene the requirements of the ISAs. • Firms policies and procedures that do not reward and incentivise the appropriate application of professional of professional scepticisms. The policies and procedures may not support a positive attitude within the firm regarding the delivery and monitoring of quality of work within the firm. These policies may instead have a negative impact resulting in the auditors not being able or willing to demonstrate and fully document how they exercised their professional scepticism. • Inability by audit firms to attract individuals with questioning minds and appropriate level of knowledge. Firms may hire staff that lack skills and competence to appropriately apply the concept of professional scepticism. • Long- term relationships between auditors and auditees which create familiarity threats. Furthermore, auditees may be so specialised/ complex that the firm may not be able rotate staff involved in these audits often enough to reduce familiarity threat. Continuity of the team involved in the audit may be a concern and lack of individuals with the relevant experience in the market place (available to be recruited) may result in independence issues arising.
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		<p>The following details the role the IAASB should take to enhance those drivers and address those impediments:</p> <ul style="list-style-type: none"> • The IAASB should consider revising the definition of the concept of professional scepticisms in the ISA and provide detail application material or frameworks that auditors can refer to. Furthermore, the IAASB could clarify the documentation requirements in order to demonstrate the appropriate application of Professional scepticism. • The IAASB should consider the impact of the professional scepticism concept on audit quality and enforce the application of the concept in ISQC1 and ISA 220. The IAASB should also consider the role of the quality reviewers and audit committees in relation to professional scepticism during the audit. • The IAASB should evaluate the impact of ethical and independence related issues on the auditor's ability to maintain professional scepticism. Furthermore, the IAASB should consider the impact of courage and fear amongst auditors on their ability to apply the concept appropriately. • The IAASB should continue with research and projects relating to the concept of professional scepticism <p>The IAASB should prioritise the following areas discussed in the background:</p> <ul style="list-style-type: none"> • Clarifying what is meant by "professional scepticism" and whether the concept is consistently described across the ISAs, IESs and IESBA Code. • Evaluating whether the current requirements and guidance in the International Standards that refer to professional scepticism are clear as to what is expected from auditors. • Considering whether a professional scepticism framework or a professional judgment framework that focuses on professional scepticism (a topic already explored by some firms) should be developed • Considering whether there are specific actions that firms should take to address professional scepticism, including consideration of the effect of firm culture on the application of professional scepticism. Including how auditors can be effectively trained and how their competencies can be further developed to enhance the application of professional scepticism. • Considering the potential effect of evolving use of technology in audits, together with increasing business complexity, for example, whether auditors use technology (such as audit software applications and checklists) appropriately to support the application of professional scepticism.
42.	GAO	<p>The root causes of audit deficiencies are complex and vary in nature.</p> <p>We believe the drivers for professional skepticism include the following:</p> <ul style="list-style-type: none"> • Adequately documenting the application of professional skepticism for the nature, timing, and extent of procedures based upon the risk level of the area. • The competence and experience of the staff both at the junior and senior levels at the audit organization, in general and for any specialized audits the audit organization undertakes, such as government audits. • Training in professional judgment and fundamental and specialized knowledge, such as industry-specific training, fraud training, and conflict resolution training, to enhance professional skepticism. • Adequate understanding of the concept of professional skepticism.

		<p>We believe impediments to professional skepticism include the following:</p> <ul style="list-style-type: none"> • Difficulty of documenting professional skepticism in determining the nature, timing, and procedures of the audit, especially in regard to addressing conflicting evidence. • Lack of training of the staff both at the junior and senior levels at the audit organization, in general and for any specialized audits the audit organization undertakes.
43.	INTOSAI	<p>Drivers for not applying professional skepticism might be several and their origin can be on either individual or firm/institutional level. We believe that the mentioned external factors such as tight deadlines etc. are not external factors per se as they are rather influenced by firm/institutional level and refer to proper staffing and planning for work overload.</p> <p><u>Drivers on individual level (examples):</u></p> <ul style="list-style-type: none"> • Lack of skills and no proper training, juniors are assigned to missions where they confront senior managers and their capacity to be sceptical and use their questioning mind might be limited (partly firm/institutional level) • Lack of understanding of the concept of professional skepticism • Lack of courage to question seniors within the audit teams (tone-at-the-top) • Personal gains <p><u>Drivers on the firm/institutional level (examples):</u></p> <ul style="list-style-type: none"> • To ensure financial gains – engagements are accepted even when the firm might not get all the relevant audit evidence, not enough resources are devoted to the audit teams which might affect the use of the questioning mind-set • Lack of competent staff in overall <p>When it comes to specific drivers for not applying professional skepticism within the public sector we believe that all the drivers mentioned in the ITC (and above) are relevant for us. On the other hand we need to address the driver related to political gains. As we operate in a political environment there might be political connections and strains between the top management of a supreme audit institution and the government, though political bias is an issue for all the staff within the office. The appointment of the Head of the SAI (Auditor General or President of the Court) is critical and the procedures are different within the various jurisdictions. This driver(political bias) can partially be addressed by improving the standards when it comes to requirements on audit documentation and the rationale for applying professional skepticism (on the engagement level) but as this issue also might relate to the appointment of the Head of the SAI (Auditor General or President of the Court), we would suggest to address political bias in the ISQC as well. For example mentioning that the management should ensure that the decisions made within the audit of public sector are free from financial and political bias.</p> <p>Another issue for the public sector is that our client base is the same over the years. Even if we have rotation rules and policies we still remain in the same domain year after year. This may cause auditors to be too familiar with the domains and not apply the professional skepticism as needed.</p> <p>One of the most complicated driver/-s to address for not applying professional skepticism both in the private and public sector might be the intentional behaviour (looking the other way for personal or firms gains) and perhaps also cultural aspects as cultural aspects might be linked to a strong behavioural attitude within the society which is not so simple to change nor address by standards. As other drivers such as competency, skills etc. might (to a level) be addressed with education, training and better planning.</p>

		<p>To change attitude and behavioural we believe that several stakeholders need to address this matter, for example the top management of firms and supreme audit institutions, universities, national standard-setters, audit quality reviewers etc.</p> <p>When it comes to the role of the IAASB as a standard-setter we believe that IAASB could more clearly define the concept of professional skepticism [sic] and it's relation to professional judgement and audit quality:</p> <ul style="list-style-type: none"> • IAASB could by requiring relevant actions and audit documentation (ex. that the auditor needs to document how they have challenged the management on critical matters such as estimates etc.) ensure that the level of transparency would increase. The most important thing is the documentation of the logical application of professional skepticism in the audit file. IAASB could also consider to write requirements which requires a more challenging mindset than how they are written today. Though we recognize that this might cause our audits to be more time consuming. • IAASB could point at the close links between education, skills, confidence and application of professional skepticism and professional judgement. • IAASB could also clarify links between audit quality and professional skepticism in ISQC 1 and 220. <p>When it comes to priorities, all the suggested actions in par.37 are relevant and they are integrated with each other. As this matter is of the highest interest both for the stakeholders but also for us auditors, we believe that all the actions should be included in the future work. Though we would like to suggest that IAASB makes it a priority to improve the audit standards, and not to develop a framework. That could be done as a result of the improvements and clarification in the standards or perhaps just revise the Audit Quality framework with parts relevant for professional skepticism.</p> <p>When it comes to priorities we would suggest the following:</p> <ol style="list-style-type: none"> 1. Clarity on the concept and whether the current requirements and guidance are clear as to what is expected from auditors. 2. Actions on firm/institutional level to enhance application of professional skepticism 3. Role of the staff coaching and reviewing audit work have a very important role to play as the Engagement Leader/Partner and EQC reviewer does not review every working paper and as a result, is not best positioned to build in or challenge the application of missed skepticism. The first line of defence is the first level reviewer and site supervisor. 4. Role of engagement partners, EQC reviewers, audit committees, audit oversight bodies and others influencing the appropriate application of professional skepticism. 5. Local norms and culture is an important factor as you might have the best technically skilled auditor, but their cultural context might prohibit them from asking the right question. 6. Training etc. of auditors 7. Use of technology and its impact on the application of professional skepticism.
Preparers of Financial Statements		
44.	PAIB	<p>Key drivers of professional skepticism include:</p> <ul style="list-style-type: none"> • Culture of the accountancy firm. As part of their efforts to enhance professional skepticism, accountancy firms should evaluate how rewards can influence certain behaviors, and how they can be used to encourage greater transparency and collaboration with the organization being audited. For example, junior audit staff can be positively rewarded for identifying

		<p>errors that lead to findings. Equal attention and reward should also be given in situations where audit staff validate a management assertion. Rewards may be broader than compensation, which is the focus of paragraph 160 in the ITC.</p> <ul style="list-style-type: none"> • How professional skepticism is encouraged and facilitated in ISAs, quality control requirements, and in additional guidance provided by the IAASB. • Internal accountancy firm quality reviews. • The confidence and professional skills and competence of individual practitioners, which is linked to professional licensing requirements, and the training received. Some jurisdictions report a narrow pipeline of talent into the profession, which may hinder the diversity of skills and perspectives in the profession. • An open dialogue with audit clients involving those charged with governance and management, supported by professional accountants in business, allows for a healthy exchange between the auditor and organization on the key judgements of the auditor. <p>Impediments include:</p> <ul style="list-style-type: none"> • Budget and time pressures linked to tight reporting deadlines, and heavy workloads. • Performance management and systems of rewards and recognition in accountancy firms, or from regulators, that do not drive the right behaviors and are not conducive to the application of professional skepticism. • An over-focus on meeting the audit client's budget and engagement requirements rather than competing on audit quality. Driven by the market, accountancy firms typically compete on price, which is more tangible than demonstrating audit quality. Additional requirements related to audit quality could result in greater cost, which would need to be clearly communicated. • Understanding the audit client's business model(s) and its environment is fundamental to applying judgment, particularly understanding linkages between operational and financial reporting risk. A lack of experience of an audit client and its environment can significantly impair the level of professional skepticism and judgment applied by auditors. Without sufficient awareness and understanding, it is difficult for an auditor to determine what answers and results are unusual, and which they should be challenging. Given that in-house finance and accounting teams are the main point of contact for auditors, professional accountants in business can help provide a necessary overview of the business model(s). A greater dialogue around the business model should be seen as a key component of an audit, which can help direct the attention of group engagement teams as well as component auditors to relevant risks of material misstatement. • Professional skepticism and judgment are generally enhanced with experience. This means that audit teams need to be properly supervised and staffed with the right balance of experience. For example, an experienced audit partner or manager should be accessible and present during the engagement. Some PAIB Committee members report that the sustained involvement of an experienced auditor throughout an engagement does not always occur. This also leads to related problems of coordination of audit teams, particularly where the engagement involves a fragmented range of experts covering specialist areas, such as valuation, financial instruments, and tax. Currently, the ITC refers to concern about the group engagement team's understanding of the planned use of experts by component auditors when obtaining an understanding about the competence and capabilities of the component auditor, including challenging situations where there is no planned involvement of experts. The ITC also recognizes that engagement team members may not all work in the same geographic location. Coordination of fragmented audit teams involving experts also presents its own challenges for audit quality that might need further recognition.
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		<ul style="list-style-type: none"> As the ITC explains, a joint approach by the IAASB, International Accounting Education Standards Board, and International Ethics Standards Board for Accountants should provide a better basis for understanding what more the IAASB and others could do in this area. There appears to be great opportunity to work with others to provide further discussion and guidance on professional skepticism that supplements what is already included in the ISAs. For its part, the PAIB Committee intends to continue highlighting the important aspects of the preparer's role in enhancing audit quality, and supporting the application of professional skepticism by auditors.
Member Bodies and Other Professional Organizations		
45.	AAT	<p>Professional Skepticism¹ and Judgement</p> <p>3.1. The need for auditors to apply and demonstrate appropriate professional scepticism can be problematic, as it depends totally upon an attitude of mind which is difficult to document and evidence. AAT considers, however, that even where appropriate scepticism has been applied there is a difficulty for auditors to objectively demonstrate such due to the primary objective of an audit being to report whether the auditor supports the financial statements presented by the entity, or not. In practice it is likely that in all cases an auditor will have some doubts or concerns with the financial statements of the entity, although would not have sufficient grounds to qualify the audit report. It is only where there is a situation of total disagreement that an auditor's opinion might be published in detail.</p> <p>3.2. AAT is of the view that appropriate professional scepticism can be demonstrated to the public by requiring audit reports to provide more detailed information as regards the auditor's opinion on the detailed contents of financial statements, particularly those matters which are based on the preparer's estimates, judgement and subjective evaluations. Scepticism is best reflected if the audit objective is to produce an audit report which reflects the auditor's doubts and uncertainties.</p> <p>3.3. The auditor should, in addition, express their opinion as to the degree of prudence applied to such matters in the preparation of the financial statements.</p> <p>3.4. AAT recognises that such a change of approach is likely to result in higher costs but, this is a necessary outcome of providing stakeholders with sufficient information from, and confidence in, financial statements. It also has to be recognised that under current conditions pressures on audit costs may lead auditors to take unjustifiable risks in the evaluation of possible misstatements in financial statements so that, while costs may increase, more informative audit reports will result in demonstrably improved audits and benefits for the users of financial statements.</p>
46.	ACCA	<p>At the December IAASB meeting, the IAASB received a presentation from Professors Joe Brazel and Tammie Schaefer on the state of academic research on professional scepticism. This presentation identified a number of factors that affect the application of professional scepticism. While many of those factors are identifiable in paragraph 37, we would recommend a more in-depth consideration to ensure that nothing is overlooked. For example, the presentation identified as major issues time pressure and a bias towards outcomes, but neither appears in the list of areas being explored in paragraph 37.</p> <p>We also believe that any analysis of professional scepticism is unlikely to be complete unless it considers professional scepticism from a psychological perspective. For example, the 2013 report on professional scepticism from the Center for Audit Quality identified that group brainstorming sessions, required by both US auditing standards and ISAs, may actually inhibit professional scepticism. This is even though the auditor is aware of the overarching requirement to be professionally sceptical. There may be</p>

¹ Where AAT is reproducing text from the IAASB invitation to comment the spelling used in the source document will be used

		<p>other areas in ISAs where a consideration of human factors and psychology may reveal other social impediments to the appropriate application of professional scepticism. In our view, such insights are much more likely to transform auditor behaviour than attempts to strengthen standards.</p> <p>In respect of the role of audit oversight bodies in influencing professional scepticism, we would welcome a recognition within ISAs that the appropriate application of professional scepticism might sometimes involve not seeking further explanation and evidence from management in non-contentious or unrisky parts of the audit. For example, this could be achieved by highlighting the links between ISA 315 and ISA 240 and professional scepticism.</p>
47.	AIC	<p>The main obstacle, we believe, is the lack of integrity of the professionals and the lack of control of Organizations members on the active practice, make that often practitioners ignore the skepticism or considered only half way, to decrease costs of their service. Definitely, IFAC can play an important role if it requires timely compliance with the Statements of Membership Obligations (DOM). Professional associations can also cooperate for this purpose if it controls the level of practice of its adherents, especially with regard to the observance of professional skepticism of auditors.</p>
48.	AICPA	<p>The 2013 GPPC monograph covers many of the impediments and threats to the appropriate application of professional skepticism, as well as factors that mitigate the threats. In our response, we highlight some key points that we believe are particularly important to consider in revisions to the ISAs.</p> <p>The different drivers, impediments, and enhancements to professional skepticism come into play at different structural levels (for example, individual auditor, engagement team, audit firm, and profession). Thus, to be effective, proposed enhancements must match the appropriate level with the impediments they are designed to address. For example, proposed solutions targeted at the profession (such as mandatory firm rotation), may not effectively or completely address the impediments at the individual auditor level (such as personal traits or biases). Organizing potential impediments at the structural level will allow the IAASB to determine how standards can best address important concepts such as traits, biases, incentives, culture, and tone at the top. It will also help the IAASB to suggest ways other stakeholders can address potential impediments to enhance the application of professional skepticism.</p> <p>With respect to tone at the top and incentives, engagement team leaders and firms need to understand the importance of recognizing and supporting the proper application of good judgment and skepticism (that is, skeptical effort and action) and not just outcomes (that is, finding a material misstatement or coming in under budget). A recent academic study finds that audit staff's skeptical behavior is evaluated based on whether the staff's investigation of an issue ultimately identifies a misstatement.⁸ Holding staff judgments and acts constant across conditions, the study finds that evaluators penalized auditors who employ an appropriate level of skepticism, but do not identify a misstatement. In the majority of cases where the application of heightened professional skepticism is appropriate, the resulting additional effort and action will typically <i>not</i> result in the discovery of a misstatement. If the appropriate exercise of professional skepticism is recognized and supported only when the result is the identification of a misstatement, in many audit settings there may be insufficient incentive for individual auditors to properly link heightened risk with the appropriate application of professional judgment and skepticism. The points raised in this paragraph also have important quality control implications.</p>

⁸ See Brazel, Jackson, Rech, Stewart, 2016, forthcoming in *The Accounting Review*, *The Outcome Effect and Professional Skepticism* (<http://ssrn.com/abstract=2349853>).

		<p>We believe that a significant impediment is the current vague and ambiguous definition of professional skepticism in the ISAs as outlined in our response to PS1. It is not particularly meaningful or helpful to encourage a staff auditor to be sure to apply (or document) appropriate “professional judgment” or “professional skepticism” if the best we can do is to provide ambiguous concepts and definitions. The addition of an improved definition with a framework and application material that links attitude and risk assessment, to action, evidence and documentation will help boost the professional skepticism and judgment abilities of staff auditors as they are able to identify and use actionable and understandable tools and techniques.</p> <p>A top priority for the IAASB should be to continue to facilitate discussion with regulators and firms to see if there is agreement on the top root causes for the observed lack of professional skepticism in reported inspection findings. In terms of order of priority for the concepts address in paragraph 37 of the ITC, we rank those items as follows:</p> <ol style="list-style-type: none"> 1. Clarifying and improving the definition of professional skepticism and related application material. 2. Clarifying and improving requirements and guidance in the ISAs to highlight areas and situations where it is particularly important or relevant to apply more professional skepticism. 3. Clarifying what actions and documentation are associated with situations where more or less professional skepticism is warranted. 4. Developing application material regarding what the evidence of the proper application of professional skepticism should look like in the work papers. In addressing these first 4 priorities, there will be an opportunity to include stakeholder’s expectations about how professional skepticism should be applied and documented. 5. Develop and include frameworks for professional judgment and skepticism into the standards and application material. We believe frameworks will be key in accomplishing each of the first 4 priorities. 6. Clarify that drivers, impediments, and enhancements to professional skepticism differ by structural level, which means that drivers, mitigating factors, and enhancements need to be properly identified, evaluated, and aligned with the relevant structural level(s) in order to improve behavior and performance. This clarification will provide a place in the standards where the roles of the engagement partner, engagement quality control (EQC) reviewers, audit committees, audit oversight bodies, and others influence the appropriate application of professional skepticism. For example, with the clarifications noted above, an audit committee should be better equipped to engage with the auditor around identified risks and to reinforce and enhance the appropriate level of professional skepticism. 7. The role of technology and analysis tools (for example, data analytics) in professional skepticism; including how such tools affect the application of professional skepticism and in so doing impact the auditor’s risk assessment and audit evidence to be obtained. We believe considerations relating to technology and tools would likely belong in application material to illustrate how professional skepticism may look, including the related skeptical actions and documentation. An improved definition, accepted frameworks, common understanding, and application material around the proper application of professional judgments will facilitate the design and development of tools, templates and technology to enhance the identification and tracking of situations that require heightened professional skepticism. For example, up-to-date databases housing electronic audit files combined with
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		<p>analyses at the firm level to benchmark across engagements and to third-party data might help firms monitor riskier areas and ensure proper audit responses and documentation.</p> <p>8. Effective auditor training. If the ISAs can achieve the objectives and outcomes outlined above and in our response to PS1, it will improve the ability to develop training and hands-on application exercises to drive home a common understanding of what professional skepticism looks like in terms of attitude, action, evidence and documentation across a continuum of risk situations.⁹</p>
49.	APESB	--
50.	CAANZ	<p>While there are a number of drivers for the appropriate application of professional skepticism, the drivers that we consider can best be enhanced by the standard setter are centred around three key areas:</p> <ul style="list-style-type: none"> • Clarity of description (ie firm culture, appropriate professional standards and adequate auditor training) • Transparency of application (ie auditor and client competence); and • Accountability for application (ie external audit inspections and internal quality reviews to assess documentation of the application of professional skepticism). <p>Impediments to the appropriate application of professional skepticism include budget and time pressures, tight reporting deadlines, heavy workloads, firm's performance management/reward systems and the 'payor' model. These are explained in further detail below.</p> <p>We commissioned research⁵ into how firms conceptualise and apply professional skepticism in an audit context. This research identified a range of drivers and inhibitors of professional skepticism, which would be a useful reference point for the IAASB.</p> <p>In our view the IAASB's role in enhancing these drivers and addressing the impediments lies most effectively in ensuring that the ISAs encourage the appropriate application of professional skepticism throughout the audit. For example, the ISAs currently require documentation of professional judgments made in an audit. Including the diagram linking professional judgement to professional skepticism (page 13 of the ITC) in ISA 200, and improving the linkage to the IESBA Code, would provide a stronger link to the requirement to maintain an attitude of professional skepticism throughout an audit.</p> <p>While we are aware that individual firms and others have developed a professional skepticism framework, we encourage the IAASB to consider using existing professional skepticism tools, such as our professional skepticism training tool, or considering promoting one of the existing frameworks rather than developing additional material. We consider there will always be a need for on-going auditor training, for clear and relevant standards, and for on-going guidance and reminders. In our publication⁶ we set out some of the practical ways in which firms in Australia are providing on-going training to enhance the application of professional skepticism.</p> <p>We note that most of the impediments identified relate to practice issues such as managing tight deadlines and working with finite resources. In our view audit firms are best placed to train auditors to apply the concept of professional skepticism when faced with such pressures and the most effective training in this regard is as part of the engagement, by way of on-the-job training, coaching</p>

⁹ The 2013 GPPC monograph provides several potentially fruitful areas to improved training.

⁵ A [study](#) on how firms conceptualise and apply professional skepticism in an audit context, Philomena Leung, Nonna Martinov-Bennie and Maria Cadiz Dyball, Macquarie University

⁶ [Sharing experiences on audit quality infographic](#) Liz Stamford FCA (ICAA) and Valerie Clifford AAAPPC (November 2013)

		and mentoring. Our online tool focuses on this aspect. Also we undertook research into attitudes within audit firms to particular drivers of audit quality. This research ⁷ noted the importance of coaching, but also noted strong recognition amongst staff at all levels of the importance of professional skepticism.
51.	CAI	--
52.	CAQ	<p><u>Drivers of and impediments to appropriate application of professional skepticism by auditors</u></p> <p>The ITC requests input on what commenters “believe are the drivers for, and impediments to, the appropriate application of professional skepticism.”²² The CAQ, together with the public company auditing profession and other collaborating partners, has studied the role of the appropriate application of professional skepticism in supporting sound auditor judgments and contributing to conditions that might make an organization less susceptible to financial reporting fraud.²³ Through that work, the CAQ has identified both drivers of and impediments to the appropriate application of professional skepticism. The following paragraphs outline what we have learned about drivers of and impediments to the appropriate application of professional skepticism that the IAASB may want to consider as it brings forth new proposals.</p> <p>Auditor independence, objectivity, and professional skepticism are all critical to audit quality. For auditors to fulfill their duty to apply professional skepticism and obtain reasonable assurance about whether the financial statements, taken as a whole, are free from material misstatement, they must be independent of management and be able to perform their tasks with an objective perspective. Independence and objectivity are essential to professional skepticism, but there are other drivers that bear on one’s ability to exercise skepticism. The CAQ views drivers of skepticism as a combination of personality traits, learned skills, and incentives.</p> <p><i>Personality traits</i></p> <p>Professor Kathy Hurr of Baylor University utilized six personality traits that contribute to skepticism which she used to develop a scale to measure skepticism.²⁴ The “Six Characteristics of Skepticism” are:</p> <ul style="list-style-type: none"> • Questioning mind – A disposition to inquiry, with some sense of doubt. • Suspension of judgment – Withholding judgment until appropriate evidence is obtained. • Search for knowledge – A desire to investigate beyond the obvious, with a desire to collaborate. • Interpersonal understanding – Recognition that people’s motivations and perceptions can lead them to provide biased or misleading information.

⁷ [Audit quality research infographic](#)

²² The ITC, p. 87.

²³ See, e.g., *Professional Judgment Resource* (August 2014), available at <http://www.thecaq.org/reports-and-publications/professional-judgment-resource>, and The Anti-Fraud Collaboration, *The Fraud Resistant Organization* (Nov. 2014), available at <http://www.thecaq.org/reports-and-publications/the-fraud-resistant-organization/the-fraud-resistant-organization>. See also, *The External Auditor Assessment Tool* (2015), available at <http://www.thecaq.org/reports-and-publications/external-auditor-assessment-tool>, and Professors Steven Glover and Doug Prawitt, *Enhancing Auditor Professional Skepticism* (Nov. 2013), available at <http://www.thecaq.org/docs/research/skepticismreport.pdf>.

²⁴ R. Kathy Hurr, “Development of a Scale to Measure Professional Skepticism,” *Auditing: A Journal of Practice and Theory* (May 2010). See also, Mark W. Nelson, “A Model and Literature Review of Professional Skepticism in Auditing,” *Auditing: A Journal of Practice and Theory* (Nov. 2009), p. 2, which includes the traits of “problem-solving ability, ethical predisposition, and other traits like self-confidence and tendency to doubt.”

		<ul style="list-style-type: none"> • Autonomy – The self-direction, moral independence, and conviction to decide for oneself, rather than accepting the claims of others. • Self-esteem – The self-confidence to resist persuasion and to challenge assumptions or conclusions. <p>Professor Hurt used her skepticism scale to test the correlation of the presence of these six personality traits in individual auditors with their propensity to respond to “skepticism-inducing audit circumstances” by changing their behaviors to search for more persuasive audit evidence and generate alternative explanations.²⁵ Hurtt found that, in general, auditors who possessed the characteristics or personality traits of skepticism applied greater levels of skepticism than did those with less of those characteristics when presented with a skepticism-inducing audit scenario.²⁶</p> <p><i>Learned skills</i></p> <p>Auditing skills acquired through education and experience also are important drivers of professional skepticism. Auditors who possess the appropriate knowledge and experience to make judgments can identify those facts and circumstances that impact risks and issues related to the audit. Having this knowledge and experience enables the auditor to focus on gathering evidence that is most pertinent to analyzing those matters. Academic studies suggest that auditors with high levels of industry specialization and other audit experience “are better able to identify high-frequency errors and complex patterns of evidence that indicate error....”²⁷ Studies also suggest that auditors’ technical accounting knowledge is a critical driver of fortitude in presenting and resolving challenges with management over accounting treatments.²⁸</p> <p>While innate ability or experience can be very helpful in exercising appropriate professional skepticism, they do not always overcome the potential for judgment tendencies and bias. For example, academic literature poses that while auditor knowledge gained through experience and industry specialization can have positive effects on professional skepticism, they also can have negative impacts and contribute to judgment tendencies.²⁹ Common judgment tendencies that can lead to bias and weaken skepticism are overconfidence, confirmation, anchoring and availability.³⁰ As Professors Glover and Prawitt note, such “bias-inducing tendencies” can cause “even the brightest, most experienced” auditors to make “suboptimal judgments.”³¹</p>
53.	CIIPA	<p>There are several drivers for and impediments to the application of professional skepticism. Two of the more significant factors include “tone at the top” and “awareness of the requirement”. Tone at the top includes the role and involvement of partners directly assigned to each engagement through to senior leadership of a particular firm. Paragraph 37 includes the role of the engagement partner but does not specifically refer to a firm’s senior leadership. The importance of a firm’s senior leadership in relation to</p>

²⁵ R. Kathy Hurtt et al., *Measuring professional skepticism to provide a link to skeptical behaviors* (2009). Working paper, Baylor University, p. 23.

²⁶ Id., p. 24.

²⁷ See Nelson, p. 2, 7-8.

²⁸ Id., p. 16.

²⁹ Id., pp. 7-8. See also, Glover and Prawitt, p. 11, and CAQ, *Professional Judgment Resource*, pp. 10-11.

³⁰ See Glover and Prawitt, p. 11, in which they define overconfidence bias as “the tendency of decision makers to overestimate their own abilities to perform tasks or make accurate assessments of risk or other judgments and decisions.” Confirmation bias is “the tendency to seek and overweight confirming information in the information-gathering and evaluation steps, and to favor conclusions that are consistent with initial beliefs or preferences.” Anchoring bias is “the tendency to make assessments in gathering and evaluating information by starting from an initial value and then adjusting insufficiently away from that initial value in forming a final judgment.” They define the availability bias as “the tendency for decision makers to consider information that is more readily available from memory as being more likely, relevant, or more important for a judgment.”

³¹ Id., p. 10.

		<p>structuring policies, procedures and compensation arrangements all impact the extent to which professional skepticism is embraced at the engagement level and, equally as important, is portrayed in the manner in which senior leadership lives these requirements day to day. The tone at the top should directly connect to the awareness of the requirement though the application of a firm's assurance methodology. Improvement could be enhanced at the individual firm level by requiring discussion on the topic at planning meetings which include attendance by the engagement partners. By mandating these discussions on a regular basis at the engagement level individual team members will be more aware of the requirement to apply professional skepticism on a day to day basis.</p> <p>Professional skepticism, as described, is an attitude and as such it is often difficult for firms, engagement partners and quality reviewers to assess whether the teams have performed the audit with the appropriate level of professional skepticism. Areas related to significant risks of material misstatement due to fraud or error are most likely the areas in which respondents would expect auditors to exercise professional skepticism. Therefore, setting more rigorous minimum documentation standards related to such areas will often drive teams to better document their professional judgment and related actions which will in turn hopefully allow them, their engagement partners and quality reviewers to assess whether professional skepticism was appropriately applied in areas of most risk.</p> <p>In prioritizing the areas discussed in paragraph 37 we would suggest that the focus be placed on the following areas:</p> <ol style="list-style-type: none"> 1) Reinforcing the tone at the top including role of the engagement partners and other senior leadership structure and implement policies to affect organizational culture and behaviors 2) Documentation standards which relate to the audit approach and conclusions around areas of significant risk, including areas that relate to the risk of fraud.
54.	CIMA	<p>Additionally, we believe that the basis of the relationship between the auditor and the organisation subject to audit is critical to success. This could be described as focusing upon professionalism, independence, and conflict of interest as set out under section 46/65, P18/21.</p>
55.	CPAA	<p>We consider that the following matters are important drivers and impediments of professional scepticism as it is currently understood. However, these could also be seen as drivers and impediments to audit quality more broadly and so we are not convinced that they require the concept of professional scepticism to be applicable:</p> <p><u>Drivers:</u></p> <ul style="list-style-type: none"> • Robust regulatory framework which fosters good corporate governance. • Understanding the risks of fraud or error will stimulate professional scepticism and focus it appropriately. • Applying an objective assessment of the evidence rather than a corroborative approach, so that the underlying assumption is that the auditor is challenging the evidence based on their risk assessment and expectations rather than merely confirming what is presented to them. • Competence and depth of knowledge, particularly in the industry, the entity and its environment, relevant accounting standards and experience in applying different accounting treatments. • Confidence to question or challenge client staff, management, TCWG or management's experts appropriately.

		<ul style="list-style-type: none"> • Training in detecting fraud and error, including case studies on how they may be intentionally or unintentionally concealed and which indicators to look out for. • Tone at the top within entities: Non-executive directors, audit committees and board of directors supportive of and receptive to a questioning mindset by the auditor and the need to appropriately challenge information provided by management or others. • Tone at the top within firms: Engagement partners promoting engagement team communication, encouraging staff to escalate anomalies and raise questions, and firm leadership demonstrating willingness to challenge the client in their interactions. • Sufficient involvement on the audit and supervision by the engagement partner, cascading down the engagement team. • Involvement of all engagement team members in planning meetings to gain appropriate understanding of the engagement, the risks, materiality and concerns of the engagement partner. • Communication avenues within the engagement team so that anomalies and concerns are escalated appropriately. • Transfer of knowledge and experience of where it can go wrong from liquidators and forensic accountants, in order to identify signals of where fraud or error may have been detected earlier by the auditors. • Instilling a culture of professional judgement rather than compliance in accountants through the approach taken in: <ul style="list-style-type: none"> ○ University education, by encouraging and training students to challenge and question. ○ Membership programs of the professional accounting bodies. ○ Audit firm culture to foster independent thinkers and attract and recruit talent, being competent and questioning rather than overly compliant individuals. ○ Regulatory inspection programs focusing on exercise of professional judgement rather than a tick box, compliance focus which detracts from understanding the “big picture”. • Quality control reviews seeking evidence of challenge to assumptions and consideration of alternative explanations which may contradict financial information reported. <p><u>Impediments:</u></p> <ul style="list-style-type: none"> • Fee pressure which may result in an inadequate time to conduct a quality audit and to challenge or question. Conducting a robust, quality audit is more time consuming than accepting financial information or client explanations at face value and so it has a cost implication for the auditor. • Cultural norms do not always allow for questioning mindset particularly the more junior the engagement team member. • Need for co-operation from the client to obtain the necessary information, which can temper distrust being displayed by the auditor when dealing with the client and hamper effective application of professional scepticism. • Appointment of the auditor by management or the executive Board members, rather than by non-executive directors, the audit committee, an external body, regulator or legislation, may result in greater influence over the auditor.
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		<ul style="list-style-type: none"> • Even if appropriate professional scepticism has been applied, if excessive documentation to evidence the exercise of professional scepticism is expected to satisfy internal and external inspections, professional scepticism may appear to be impeded. • Insufficient audit work conducted on-site so that observations cannot be made which may have triggered the auditor to question the evidence. • If the auditor becomes overburdened with requirements they may focus on compliance and documentation, diverting their attention from risks and red flags which require the exercise of professional scepticism. • Self-interest threats, such as the fear of losing the client, intimidation or advocacy threats can impact the level of scrutiny which auditors subject their clients to. • Appropriately directed professional scepticism comes from experience, knowledge and competence, so lack of supervision and direction from the engagement team leadership can impede appropriate exercise and development in team members of professional scepticism. <p><u>IAASB's Role:</u></p> <ul style="list-style-type: none"> • If professional scepticism can be defined to provide a necessary concept which underpins the audit, then it would need to be embedded in the audit approach in standards and clearly reflected in the documentation requirements which evidence exercise of professional scepticism. There should be clarification of the extent of documentation required in relation to the process involved in exercising professional scepticism during the engagement. Typically, documentation focusses on the amounts and disclosures in the final financial report rather than the various iterations which may have been influenced by the auditor's questions and procedures during the audit. <p><u>Priorities:</u></p> <p>Of the matters raised in paragraph 37 of the ITC, we suggest that the priorities for the IAASB should be:</p> <ul style="list-style-type: none"> • Clarifying the meaning and utility of professional scepticism and links to related concepts including professional judgement, sufficient appropriate evidence and risk. • Development of a framework to explain the interaction between professional scepticism and judgement, which demonstrates the practical application of professional scepticism and how it informs the auditor in conducting the audit, particularly whether they are expected to take: <ul style="list-style-type: none"> ○ a neutral position; or ○ a position of presumptive doubt.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p>Though not an exhaustive list some possible drivers and impediments might be as follows:</p> <ul style="list-style-type: none"> • Culture and social norms; • Tone at the Top; • Education and training;

		<ul style="list-style-type: none"> • Level of the awareness of the societal role of auditors and its importance; • Significance of individual audit engagement fees to audit practices; • Appropriate support for auditors that may find themselves under pressure within firms; • Reporting deadlines and resulting time pressure; • Complexity of accounting estimates and certain accounting standards that open up possibilities for manipulation and error; • Tension that audit partners experience to consistently earn audit fees and yet be challenging and skeptical in the performance of the audit engagements; • Pressure on audited entities to report results and maintain or improve trading performance such that they are motivated to manipulate accounting estimates; and • The role of the Those Charged with Governance and audit committees in encouraging and fostering an environment where the auditor can be appropriately skeptical. <p>In the EFAA response to the IAASB Consultation Paper - The IAASB's Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016 EFAA made the following comment: "We agree with the level of significance that the IAASB places on professional skepticism. However, we are concerned that commentators believe that professional skepticism can be enhanced by an increase in written standards. It is likely that any increase in professional skepticism will naturally flow from better education and training and from a more open and pro-active dialogue between professional bodies, regulators and other stakeholders. Therefore, whilst we support the IAASB's intention we feel that this entire issue requires a more holistic approach than that currently prescribed, i.e. further changes to ISA 200 and additional guidance will not suffice."</p> <p>In light of the above remarks, EFAA is supportive of the Joint Working Group (JWG) that the IAASB has set up with IAESB and the IESBA to enable consistency of approach within these three standard setting boards and their pronouncements and to encourage a wider view point to be taken that incorporates education and ethical behaviour.</p> <p>However, aside from ensuring that the standards of the IAASB, IESBA and IAESB are internally consistent we believe that the IAASB should build on the activities noted under paragraph 36 and continue to act as a pivot and a catalyst to drive further dialogue between the stakeholders noted on page 14 of the ITC.</p> <p>On first consideration, we are unsupportive of the IAASB's suggested approach of building a professional skepticism framework. To our mind, a framework suggests a checklist approach that we believe runs contrary to encouraging a challenging mindset. As an alternative, we would encourage guidance from the IAASB on how to document professional skepticism which may address the concerns of some regulators. We would also suggest that the assessment of the impact of Key Audit Matters (KAM) might give the IAASB valuable information in this area because we would expect KAM to have had a positive effect on the demonstration of professional skepticism by requiring auditors to be transparent about their thought processes.</p>
58.	FACPCE	<p>Would be necessary guides that help professionals to apply the concept of skepticism to apply complex accounting standards implementation.</p> <ul style="list-style-type: none"> - In the same sense of what was said in the previous point for new rules for calculating contingencies. - Develop standards in situations examples of application of professional skepticism - Requirements sufficient professional experience of all members of the audit team.

59.	FEE	<p>(48) We agree that the concept of professional scepticism should be considered pervasively across the spectrum of professional standards and guidance. As such, we strongly support the approach of a joint working group aimed at ensuring a coordinated approach.</p> <p>(49) All the areas discussed in paragraph 37 are important. Although the link to professional judgement is important, the concept of scepticism is still somewhat nebulous and hence success will only result if all facets are considered. Having said that, perhaps priority should be given to “how auditors can be effectively trained and how their competencies can be further developed to enhance the application of professional skepticism”, albeit that the effect of all the other areas will need to be fully understood before this can be realised.</p> <p>(50) It will also be important to recognise the impact that local norms and cultures have in the application of professional scepticism. While acknowledging that this is difficult in practice and needs to be handled with care, we need to recognise and understand the influence that the different cultures might have on an audit engagement, and what safeguards might need to be put in place. Regardless of cultural impact, the IAASB could highlight how important the senior members of the team are to the overall scepticism applied by the engagement team, i.e. in shaping and developing the natural professional scepticism of less experienced staff.</p> <p>(51) Important drivers of scepticism, and at the same time impediments, are specific to an engagement, a client, and the firm. It includes availability of resources, budgets, staff workload, reporting deadlines and stringent timetables, as well as the clients’ environment. We acknowledge that it might not be possible for the IAASB to address all of these factors, but the auditor should be encouraged to recognise when such threats to scepticism exist and exercise professional scepticism upon acceptance/continuance of an audit engagement, or put in safeguards to ensure that sufficient scepticism is applied.</p> <p>(52) Another important driver is the diversity of backgrounds of the engagement team members. Individuals from different backgrounds can bring a diverse range of skills and experiences which can add value when exercising professional scepticism.</p> <p>(53) Furthermore, auditors’ personal characteristics are vital drivers to the application of professional scepticism. These characteristics ought to be considered as part of a firm’s recruitment decisions. For instance, an auditor having developed a questioning mind will be better equipped to apply professional judgment. Audit firms should encourage right behaviours via proper disincentives and incentives within their quality control systems.</p> <p>(54) Professional scepticism is an attitude (‘state of mind’) that is subject to behavioural factors and personal traits. It is therefore crucial to consider the behavioural aspects given the huge variations in people’s natural levels of professional scepticism. Strategic ways to address this issue could be through training, education, and mentoring, as well as incentives and disincentives within a firm’s system of quality control. The training and mentoring elements might be provided by the firm; however, the education element might be best provided by professional bodies. In any case, what would be most useful would be the opportunity to share experiences and encourage more senior members to share their experiences on instances where they have been faced with an issue that required their scepticism and/or judgement. Especially, it would be incredibly valuable to impart where things have gone wrong and not only focus to those that resulted in positive outcomes.</p>
60.	FSR	--
61.	IBA	--

62.	IBRACON	<p>We believe, the drivers for an appropriate application of professional skepticism includes, but is not limited to:</p> <ul style="list-style-type: none"> • Application of relevant training; • Independence's attitude; • Documentation of professional judgment, including discussions of significant matters with management and those charged with governance; • Use of senior professionals on audit engagement team, with strong knowledge and experience; • Increasing coaching and on-the-job training/active supervision • Involving staff in more meetings with entity personnel • Encouraging staff to explain reasoning and document professional judgments • Ongoing direct communications with entity personnel. <p>One way to enhance these drivers consists in Audit Firms assume the responsibilities to encourage and promote a culture of professional skepticism, including relevant training and the design and implementation of appropriate policies.</p> <p>However, there are some potential challenges to the appropriate application of professional skepticism that are described below:</p> <ul style="list-style-type: none"> • The tendency to seek information to support, rather than discredit, the preliminary conclusions; • The tendency for auditors to overestimate its abilities and/or knowledge; • Over reliance on management representation. In certain cultures, the extent of challenging management representations may be considered offensive by the counterparty. Guidance on a more structured process may help those cultures to overcome this issue; <p>The areas discussed in paragraph 37 are extremely important for the development of auditor's profession. To prioritize those areas it is important to focus, among other areas, on professionals training.</p>
63.	IBR-IRE	<p>a. Fostering an appropriately independent and challenging skeptical mindset of the auditor – IAASB raises in Table 1 Our Views on the Most Relevant Public Interest Issues Related to Professional Skepticism, Quality Control and Group Audits the question on how to better articulate how auditors, especially engagement partners, should appropriately apply professional skepticism. The phrase “especially engagement partners” doesn't seem appropriate, as the partner involvement usually represents maximum 5 to 10% of the audit time engagement. Professional skepticism has to be an attitude applied throughout the whole career, i.e. from junior auditor function on. By focusing on the engagement partner, there is a risk to not take into account the relevance and importance of the role of others in the engagement team.</p> <p>We also suggest IAASB reconsiders the use of wording as "to appropriately apply professional skepticism". We believe professional skepticism to be a matter of attitude, human character, training, etc. and not a mere matter of application.</p> <p>b. Enhancing documentation of the auditor's judgments – we believe the ISAs already contain sufficient documentation requirements.</p> <p>(8) As drivers for the appropriate application of professional skepticism, we see the following:</p> <ul style="list-style-type: none"> • Tone at the top: professional skepticism ingrained in all trainings and illustrated in real life;

		<ul style="list-style-type: none"> Existence of a framework to guide practitioners. <p>(9) As impediments, we see the following:</p> <ul style="list-style-type: none"> Lack of understanding of the concept combined with limited guidance to frame the application of the concept in real life, in particular with respect to the steps necessary to structure the exercise professional judgment and the documentation thereof; Time pressure to complete the audit; Analysis by management often does not contemplate alternatives and the concept not necessarily “living” with TCWG; <p>(10) As professional skepticism is a matter of attitude, mindset and education, we do not believe this concept can be captured in a standard. However, IAASB could develop a professional skepticism/judgment framework to help frame the professional’s exercise of professional skepticism and offer guidance with respect to structure and documentation of professional skepticism”.</p> <p>(11) Furthermore, we suggest IAASB provides illustrations throughout the ISAs of “professional skepticism in action” and makes sure the concept of professional skepticism more clearly and more consistently embedded in each ISA as relevant.</p>
64.	ICAEW	<p>6. We consider that these are the main drivers for the appropriate application of professional scepticism: having the right people; ensuring they are appropriately trained and developed; having the right firm culture that promotes and rewards sceptical behaviour; having appropriate firm policies and procedures including on monitoring and remediation; and having externally set standards and oversight arrangements that emphasise the need for professional scepticism and monitor firm performance accordingly. Impediments arise when any of these are absent or imperfect and when there are external factors including matters connected with the client and the environmental and contextual factors referred to in paragraph 32 of the ITC. We consider that fee pressure on firms is a very real impediment in practice and this issue should be addressed by the Joint Working Group. Firms operate in a commercial environment and the need for quality, including the appropriate application of professional scepticism, needs to be central to engagement terms and the audit tendering process.</p> <p>All of the matters identified are important but the IAASB, as a standard-setter, needs to focus on ensuring its own standards are sufficiently robust to ensure scepticism is exercised on audits (see answer to PS1 above on this) and to work with others, including the IESBA and the IAESB, to ensure the other areas are addressed appropriately. This is happening through the Joint Working Group and we support that initiative.</p> <p>We consider that these are the main drivers for the appropriate application of professional scepticism: having the right people; ensuring they are appropriately trained and developed; having the right firm culture that promotes and rewards sceptical behaviour; having appropriate firm policies and procedures including on monitoring and remediation; and having externally set standards and oversight arrangements that emphasise the need for professional scepticism and monitor firm performance accordingly. Impediments arise when any of these are absent or imperfect and when there are external factors including matters connected with the client and the environmental and contextual factors referred to in paragraph 32 of the ITC. We consider that fee pressure on firms is a very real impediment in practice and this issue should be addressed by the Joint Working Group. Firms operate in a</p>

		<p>commercial environment and the need for quality, including the appropriate application of professional scepticism, needs to be central to engagement terms and the audit tendering process.</p> <p>Any root cause analysis that identifies a lack of scepticism needs to go further than just saying that. The analysis needs to dig into the reasons for the behaviours of staff that falls short of what is needed, for example if they are under pressure to finish the job or if they lack the courage to challenge the client management. A lack of necessary technical or analytical skills should also be picked up as part of this process.</p> <p>With respect to the list of areas in paragraph 37, we would emphasise the need to prioritise considering the qualities and skills of auditors of the future (see answer to PS3 below on this) and to link with the IAASB project on data analytics in considering the evolving use of technology in audits.</p> <p>New audit models are likely to make traditional on the job coaching and mentoring for juniors very challenging and yet we consider that this is essential to the auditors of the future developing the necessary skills. At the same time there are opportunities that arise, for example the use of data analytics might create the information that provides for better informed discussions with audit clients and within audit teams. Used well, this could improve the coaching of junior staff. The Joint Working Group should consider these matters.</p>
65.	ICAP	<p>Drivers for the appropriate application of professional skepticism includes designing and implementing policies, procedures and incentives that promote a culture that recognizes and reinforces professional skepticism as being essential and therefore expected as audits are conducted. A firm's approach to training, mentoring, and effective performance of EQC reviews may contribute to the appropriate application of professional skepticism.</p> <p>Whereas impediments to appropriate application of professional skepticism include tight financial reporting deadlines, and heavy staff workloads, as well as time and resource constraints. Environmental and contextual factors can also affect the application of professional skepticism. These include the business environment, laws and regulations, as well as the local norms and culture in which an auditor operates.</p> <p>We also believe it is of particular importance to recognize that effective application of professional skepticism is subject to behavioral factors and personal traits.</p> <p>Consequently, we believe that coaching and mentoring by experienced team members, setting the tone within the team, supported by firms' training - based on a better understanding of the root causes of poor application of skepticism - is likely to be a compelling driver in influencing and reinforcing practice. Recognising these driving factors in application material may help raise awareness on professional skepticism.</p>
66.	ICAS	Please see response to PS1.
67.	ICAZ	--
68.	ICPAK	The problem is that professional scepticism (and independence) is a "state of mind". It is influenced by a person's nature, upbringing, national and corporate culture, education, experience and role models/mentors. Auditing is a vocation, and not everyone will be suited to it. Professional scepticism cannot be enhanced by guidelines and standards. It is, however, enhanced by experience. For instance, an auditor who has been confronted by fraud committed by a trusted client becomes more sceptical in future.
69.	ICPAU	Drivers: All the fundamental Principles enshrined in the Code of Ethics

		Application: 1. Concept of Professional Skepticism should be emphasized in every ISA, IES and all the parts of the IESBA Code. 2. A professional skepticism framework that focuses on professional skepticism should be in place to demystify its technical nature in the life of the understanding of the audit.																						
70.	INCPC	<div>Some of impediments are listed below (the list is not intended to be exhaustive(:</div> <table><tr><th>Impediments</th><th>Suggestions to enhance</th></tr><tr><td>Regulations that are not aligned with relevant audit risks and that can cause less attention to areas that present audit risk.</td><td>Inspection risks are important but not the only ones relevant to the audit work. Work audit planning must consider all risks related to the audit for the specific client.</td></tr><tr><td>Amount of individuals in the audit engagement</td><td>To plan an audit with an appropriate level of individuals segregating their duties.</td></tr><tr><td>Deadline pressure</td><td>Effective planning including enough time to perform the engagement.</td></tr><tr><td>Cultural background</td><td>Continuing education requirements, performance evaluations, training on ethics, professional judgment, professional scepticism.</td></tr><tr><td>Lack of knowledge and expertise</td><td>Training in the application of good judgement for a proper professional scepticism. Licencing exams for exercising audit engagements.</td></tr><tr><td>Not to know about the sector where the client develops its business</td><td>Training, best practice frames, data bases with issues and most common cases in the sector.</td></tr><tr><td>Involvement of engagement managers & partners</td><td>Planning considering enough involvement of managers and partners</td></tr><tr><td>Assuming personal technical positions</td><td>Stablishing standard frameworks where the engagement team can refer to in specific positions that can compromise the professional scepticism.</td></tr><tr><td>Familiarity with the client for some years</td><td>Rotation of the team requirements</td></tr><tr><td>Independence threats</td><td>Clear independence requirements for accepting the client and participating as part of the engagement team.</td></tr></table>	Impediments	Suggestions to enhance	Regulations that are not aligned with relevant audit risks and that can cause less attention to areas that present audit risk.	Inspection risks are important but not the only ones relevant to the audit work. Work audit planning must consider all risks related to the audit for the specific client.	Amount of individuals in the audit engagement	To plan an audit with an appropriate level of individuals segregating their duties.	Deadline pressure	Effective planning including enough time to perform the engagement.	Cultural background	Continuing education requirements, performance evaluations, training on ethics, professional judgment, professional scepticism.	Lack of knowledge and expertise	Training in the application of good judgement for a proper professional scepticism. Licencing exams for exercising audit engagements.	Not to know about the sector where the client develops its business	Training, best practice frames, data bases with issues and most common cases in the sector.	Involvement of engagement managers & partners	Planning considering enough involvement of managers and partners	Assuming personal technical positions	Stablishing standard frameworks where the engagement team can refer to in specific positions that can compromise the professional scepticism.	Familiarity with the client for some years	Rotation of the team requirements	Independence threats	Clear independence requirements for accepting the client and participating as part of the engagement team.
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71.	ISCA	We agree that strengthening auditors' professional scepticism would improve audit quality. We believe that the key drivers for the appropriate application of professional scepticism are cultures (e.g. auditors in certain jurisdictions are more comfortable challenging management), appropriate tone from the top (e.g. audit engagement partner (including the firm) leading by example), and personality of the individual (e.g. an individual who is professionally more curious and meticulous). As defined in ISA, professional scepticism is a mindset and an attitude. Such mindset and attitude will be most effective when the audit firms inculcate such mindset and attitude into the firm's values and culture.																						

		Conversely, immense time pressures and stringent deadlines act as major deterrents to adopting a sceptical mindset for fear of not being able to complete their client deliverables promptly. To top it off, the lack of competency and/or confidence of junior auditors to challenge management may create more barriers.
72.	KICPA	<p>The drivers for and impediments to the appropriate application of professional skepticism are mostly consistent with drivers for and impediments to the compliance with the IESBA Code, including integrity, objectivity (independence of mind), professional competence and due care.</p> <p>As mentioned in the consultation, professional skepticism, as an attitude and mindset of an auditor, shows strong relevance with the concepts of the IESBA Code, including an auditor's integrity, objectivity (independence), professional competence and due care. Professional competence and due care, addressed in the IESBA Code, are also touched on in IESs as technical competence for professional accountants, professional skills, professional development, including with respect to values, ethics, and attitudes. Thus, the drivers for and impediments to the appropriate application of professional skepticism can be seen equal to the drivers for and threats posed internally and externally to the compliance of IESBA Code. Specifically, an auditor, who had professional skepticism in a certain circumstance, could not apply sufficient level of professional skepticism, due to tight financial reporting deadlines, excessive workloads, concerns over possibility of losing audit clients (independence issue), and lack of professional experience and knowledge (professional competence and due care issue).</p> <p>The ultimate goal of achieving independence is maintaining independence of mind, but independence of mind cannot be evaluated and controlled. Thus, specific requirements have been developed to set up rules on achieving independence in appearance. A series of massive-scale accounting scandals has given rise to voluminous specific requirements in complexity to achieve independence in appearance. Accordingly, it is more general to touch upon auditor independence requirements in separate standards (IESBA Code or independence standards) or law and regulation.</p> <p>From the perspective of auditor's mindset, professional skepticism is similar to independence of mind. However, addressing professional skepticism in the same manner independence in appearance requirements are enhanced would not be desirable to deal with independence of mind. It would not be viable, in practice, to define "professional skepticism in appearance," just as independence in appearance requirements are developed to define independence of mind in an indirect manner, not to mention its ineffectiveness in enhancing professional skepticism. In addition, the topics of independence and professional skepticism are almost equal to those of drivers for and impediments to the appropriate application. Plus, numerous requirements and guidelines are already being in place in relation with auditor's independence, thereby making it difficult to provide separate detailed descriptions or new requirements on professional skepticism in the IESBA Code or IESs.</p> <p>Given this, it would be useful for IAASB to provide guidelines on how to resolve the expectation gap between auditors and stakeholders, and education materials related with strengthening professional skepticism, instead of enhancing and revising existing standards. For one, providing separate reference materials (not included in ISAs), such as guidelines on specific circumstances where professional skepticism needs to be applied or regulators' findings that professional skepticism is effectively applied or failed to be applied, could be one option to consider. With the IT advancement that results in active development of audit data analytics, thereby ending up with possibilities of improving the application level of professional skepticism, we believe more efforts need to be made into sharing and expanding the developments along with how to utilize them.</p> <p>Improvements also need to be made on some of the standards (including documentation) to be helpful to identifying whether professional skepticism is well-exercised or not.</p> <p>We believe the paragraph 37 mostly covers research areas necessary to improve the application of professional skepticism.</p>

		With the strong needs for addressing ethics, education and circumstances that could undermine the competence or application of professional skepticism, it would be ever more important to study those who can impact the application of professional skepticism. From the perspective of auditors and accounting firms, the study on accounting firms' specific activities in relation with auditors' education and their competence development, and application of professional skepticism is gaining importance, as we believe. In practice, consideration of IT advancement and development of professional judgment accordingly would be significant as well.
73.	MICPA	--
74.	SAICA	<p>Survey respondents agreed in general with the examples of factors that can inhibit the auditors' application of professional skepticism, as discussed in paragraph 31 of the ITC. From these, the most prominent were identified as tight financial reporting deadlines and auditors' time and resource constraints.</p> <p>112. In addition to the factors in paragraph 31 of the ITC, we have identified the following inhibiting factors:</p> <ul style="list-style-type: none"> ➤ Ineffective audit committees, referring to the important role that those charged with governance have to play in effective two-way communication between the auditor and those charged with governance and in evaluating the auditor's level of professional skepticism. ➤ Mounting audit fee pressure and declining profit levels. ➤ Pressure relating to client retention. <p>113. In terms of indicating how the IAASB should prioritise the areas to be explored as identified in paragraph 37 of the ITC, the survey respondents indicated their preference for the following four areas [listed in descending order from (1) to (4)] (excluding, the issue around providing clarity with respect to what is meant by "professional skepticism", which has already been discussed as part of our response to question PS1, above):</p> <ul style="list-style-type: none"> (1) How auditors can be effectively trained and how their competence can be further developed (2) Actions that firms should take to address professional skepticism, including consideration of the effect of firm culture on the application of professional skepticism (3) The role of: Engagement partners, EQC reviewers, audit committees, oversight bodies and others in influencing the application of professional skepticism (4) Whether the International Standards are clear as to what is expected of the auditor – the current requirements and guidance
75.	SMPC	<p>The drivers for, and impediments to, professional skepticism include the culture within a firm, especially the "tone at the top" and its approach to training and educating staff. As identified in the ITC, time and resource constraints may also be significant inhibitors to an auditors' application of professional skepticism, as well as individual personality traits and local norms and cultures in certain jurisdictions. In addition, it is important that partner's allocate adequate time to each engagement and ensure that the audit team has sufficient guidance on the application of professional skepticism throughout the engagement.</p> <p>We are aware that there are trends towards shorter reporting deadlines and in some jurisdictions the issue of audit reports is concentrated in a few months of the year (so-called "busy season"). The pressure for the audit team to complete the work in a short period of time is very high and, particularly where a client supplies key accounting information at a late stage in the audit (e.g. on</p>

		<p>an accounting estimate) it is increasingly difficult to ensure that the audit staff and partners have sufficient time to apply professional judgment and demonstrate professional skepticism efficiently and effectively.</p> <p>We welcome the Joint Working Group which has been established to consider professional skepticism by the IAASB, IESBA and IAESB to make recommendations to each standard setting board whether there is standard-setting or related work that can be undertaken. We believe that coordination on this issue is extremely important and any action the Board decides to take should be aligned with the treatment of these matters by the other boards.</p> <p>In our view, out of the areas being explored, the IAASB should prioritize whether there is a consistent and accurate understanding amongst auditors of what is meant by “professional skepticism”, if the concept is consistently described across the ISAs, IESs, and IESBA Code and whether the current requirements and guidance in the International Standards are clear as to what is expected from auditors. In addition, the IAASB should consider the potential effect of the evolving use of technology on professional skepticism in audits as part of its project on data analytics. This is likely to be an increasingly important issue, especially as audits are more likely to be undertaken “offsite” utilizing technology. There is a risk that auditors may be less skeptical using data from technology.</p> <p>We believe the IAASB needs to thoroughly explore the notion of professional skepticism. If having done so, the Board decides to develop a professional skepticism framework or professional judgment framework it is important to avoid this being a “checklist procedure”. While some guidelines may help the auditor, there is a risk it may encourage the wrong behavior that following such “framework instructions” is a guarantee of professional skepticism and correct work.</p>
76.	WPK	<p>Factors that may inhibit the auditor’s application of professional skepticism (see note 31) probably cannot be avoided in all cases. Therefore further considerations should be given to the relation-ship between these factors and the concept of professional skepticism. Also the suggestion of some stakeholders “that auditors may approach an audit with a skeptical mindset at first, and appropriately identify issues that need attention, but may not always apply professional skepti-cism in following through with appropriate actions” (see note 31) should be explored in connection with the above mentioned negative influencing factors. It is therefore important to foster ways that audit firms consider whether their current policies and procedures encourage appropriate behaviours by individual auditors.</p>
Academics		
77.	AAA	<p>Drivers for and impediments to skepticism are covered extensively in the models proposed by Nelson (2009) and Hurtt et al. (2013) and are not covered in detail here. These include, characteristics of auditors themselves, their ability to exercise skeptical judgments, and characteristics of evidence or of the environment that promote or inhibit skepticism. Environmental factors include incentives provided by auditing firms to encourage skeptical behavior, or pressures to complete audits in a timely manner, both of which can inhibit the collection of additional audit evidence. In addition to the academic studies cited in Nelson (2009) and Hurtt et al. (2013), more recent studies have provided insights into the drivers for and impediments to professional skepticism as noted below.</p> <p>Since 2013, there has been an increased research emphasis on examining the drivers for and impediments to professional skepticism. Often they are two sides of the same coin; for example, increased time pressure may impede skepticism, while increasing time available in the budget may be a driver of skepticism. Westermann, Cohen and Trompeter (2014) conducted a survey and interviews with audit partners and noted that increased accountability for the quality of audit work (whether to regulators or to the firm) increased the application of professional skepticism, while pressures on engagements (such as budgetary or time</p>

	<p>pressures) inhibit the application of professional skepticism. Mocadlo (2016) notes that time pressure felt by auditors at the senior associate level negatively impacts the level of audit quality, with auditors reducing the amount of necessary procedures performed when under time pressure.</p> <p>Kadous and Zhou (2016) find that skepticism is increased when auditors' intrinsic motivation to perform well is made salient to them. This suggests that a high level of internal accountability (as opposed to external sources of accountability noted in Westermann et al. 2014) can be highly effective in driving professional skepticism. Therefore reminding auditors of why they should take pride in their work, and why their role in protecting the public interest is important, should cause them to exercise more professional skepticism (as noted in bullet 4 of paragraph 37 of the ITC). Alternatively, auditors can become demotivated if they feel that their superiors discourage the exercise of professional skepticism. Brazel, Jackson, Rech and Stewart (forthcoming) find that when auditors exhibit skepticism and perform additional follow up procedures, but do not find misstatements, the auditors are viewed negatively by superiors. Brazel et al. (forthcoming) note that this focus on the outcome of the additional procedures (which they call the "outcome effect"), can discourage auditors from exercising professional skepticism, even when the additional effort is warranted. There are two possible solutions to reducing the outcome effect. One is to improve the "tone at the top" on audit engagements by encouraging greater skepticism, even when accounts are ultimately found to be fairly stated (this is related to firms' quality control efforts and discussed more in the section below). Another solution is for auditing standards to promote the application of professional skepticism when management bias is present by requiring auditors to document the impact of management bias on auditing judgments and procedures performed. This requirement would ensure that procedures are linked to the consideration of bias, not to whether or not the account is ultimately misstated.</p> <p>Two studies, Bennett and Hatfield (2016) and Zimmerman (2016), examine how the medium through which auditors communicate affects their professional skepticism. Bennett and Hatfield find skepticism is enhanced in face-to-face versus computer-mediated (e-mail) settings. A greater number of follow up questions indicating greater skepticism was noted in the face-to-face condition, particularly when the client exhibited nonverbal cues designed to increase skepticism on the part of the auditor. Zimmerman (2016) only studied an e-mail communication setting, but varied the confidence expressed by management as well as the timing of e-mail response, and found that auditors were most skeptical when management exhibited low confidence and was slow to respond to requests.</p> <p>The academic research cited above suggests that addressing firm-level impediments to and drivers of professional skepticism, such as accountability for high quality work, motivation to perform well, encouragement of skeptical action without regard to outcome, planning audits appropriately to reduce time pressure, and encouraging face-to-face communication are promising avenues to promote the application of professional skepticism. All of these fall under the umbrella of firm quality control, and we encourage the continued development of activities related to enhancing standards of quality control that are described as the second topic of the ITC (and addressed by the Committee below).</p> <p>As noted above, the bullet listed items relating to firm culture and quality control represent very promising areas of focus for standard-setting. Of the items presented in paragraph 37, these are represented by the first bullet (firm culture), second bullet (firm training) and sixth bullet (role of engagement and EQCR partners, audit committees, and external parties that oversee audits). These three areas should be a top priority for standard setting efforts.</p> <p>The next priority should be the last item (bullet number 8). The item asks whether the standards should incorporate a framework for professional skepticism. We highly recommend the development and use of a framework for several reasons. First, a major reason for the difficulty encountered by standard setters in defining and measuring professional skepticism is likely due to its inseparable link to the fundamental ethical principles of integrity, objectivity and auditor independence. A professional skepticism</p>
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		<p>framework would be useful to identify inputs to and outputs from the audit process that enhance the auditor's ability to remain independent, act with integrity and objectivity, and maintain an attitude of professional skepticism. Second, relying on the model introduced by Nelson (2009) and extended by Hurtt et al. (2013), the framework should be based on the recognition of the difference between skeptical judgment and skeptical action. Professional skepticism is an attribute of auditor performance because it is a product of auditor judgment revealed by skeptical behavior (Nelson 2009). As described in Nelson (2009) and Hurtt et al. (2013), auditor knowledge, traits and incentives drive professional skepticism's role in judgmental decision making throughout the audit. Similarly, the model should also depict how the interaction of auditor judgment with knowledge, traits and incentives produces action or inaction. A framework that structures a distinction between judgment and action underscores to the auditor that documentation of both professional judgments and actions are necessary to provide supporting evidence that professional skepticism was applied appropriately.</p> <p>The next priority should be the impact of local norms and culture (bullet item 7), which is discussed in Hurtt et al. (2013). As noted in that paper, there is little academic research on the interaction of culture and professional skepticism specifically, but there is research regarding the impact of cultural differences on audit judgment and decision making, suggesting that skepticism could be impacted by differences in: perceived power distance; communication and documentation of issues; tolerance for ambiguity; and acceptability of questioning behavior, to name a few factors. It seems that even if firms put policies and procedures in place to promote skepticism through quality control efforts, cultural differences could derail consistent application of such efforts at a global level if they are not addressed in the development of those policies and procedures.</p> <p>Bullet item 5 (technology) is evolving and should take priority for the IAASB as part of the Data and Analytics project; however, this item, as written, implies that auditors would rely on technology or checklists in making their judgments. Although technology provides benefits in helping auditors make sense of the growing complexities of audits, there are drawbacks to technology, such as overreliance on tools without a deep understanding of the underlying issues. This may result in reduced skepticism. Note from studies discussed above (Bennett and Hatfield 2016; Zimmerman 2016) that even the use of a simple technology such as e-mail can impact the application of professional skepticism. See Westermann, Bedard, and Earley (2015) for a discussion of the benefits versus the drawbacks of technology in promoting knowledge acquisition in auditing.</p> <p>Bullets 3 and 4 relate to individual characteristics of auditors (including both their traits and the internalization of their public interest role). Significant research has examined auditor characteristics (see Brazel and Shaefer 2015; Hurtt et al. 2013; Nelson 2009), but such characteristics are difficult to incorporate into standard setting, and these should therefore be lower priority efforts, except as they might be incorporated into an overall framework, as noted above (i.e., highlighting the need for auditor self-awareness of their own biases). The Committee recommends that an emphasis on firm quality control represents a more promising direction for enhancing professional skepticism on audit engagements.</p>
78.	AHigson	<p>As I stated in response G1, both accounting and auditing are often considered to be technical subjects and I would suggest that this tends to undermine the complexities of external reporting. Key to this is the impact of management's motivations on the preparation and presentation of the financial statements. For this reason I have argued that external auditing should be viewed as the audit of management's motivations.</p> <p>In PS1 I stated that I do not think that skepticism alone is enough. I have argued that the profession should consider Critical Thinking. Kurfiss (1988, p.2) defined Critical Thinking as "an investigation whose purpose is to explore a situation, phenomenon, question, or problem to arrive at a hypothesis or conclusion about it that integrates all available information and that can therefore be convincingly justified" – doesn't this sound exactly like external auditing?</p>

	<p>Huffman et al. (1995, pp.xxix-xxxi) categorized the main elements of Critical Thinking into three main components:</p> <ul style="list-style-type: none"> • Affective Components – these comprise “the emotional foundation” which enable or limit an individual’s ability for Critical Thinking. These components were “valuing truth above self-interest”, “accepting change”, “empathizing”, “welcoming divergent views”, “tolerating ambiguity” and “recognizing personal biases”. • Cognitive Components – these are the thought processes used in Critical Thinking: “thinking independently”, “defining problems accurately”, “analyzing data for value and content”, “employing a variety of thinking processes in problem solving”, “synthesizing”, “resisting overgeneralization” and “employing metacognition” (reflective thinking – thinking about one’s own thought processes). • Behavioral Components – actions needed to achieve Critical Thinking: “delaying judgment until adequate data is available”, “employing precise terms”, “gathering data”, “distinguishing fact from opinion”, “encouraging critical dialogue”, “listening actively”, “modifying judgments in light of new information” and “applying knowledge to new situations”. <p>From this, it would seem to be highly appropriate to apply Critical Thinking to external auditing and the use of the above three components may help to explain the problems faced by the external auditors and provide a basis for tackling these problems. In my academic paper, I applied these components to the external audit as follows:</p> <div data-bbox="575 686 1593 917" data-label="Diagram"> <pre> graph LR A[Affective Components] --> B[The auditor's background] C[Cognitive Components] --> D[Professional education and training] E[Behavioural Components] --> F[Conducting the audit] </pre> <p style="text-align: center;">The Application of Critical Thinking to External Auditing</p> </div> <ul style="list-style-type: none"> • The “affective components” are probably imbedded in a person’s background – and it may mean that everyone is not capable of Critical Thinking. Therefore, when audit firms are recruiting, they need to consider whether potential candidates are capable of approaching a problem with an open mind. Recruiters look at candidates’ qualifications and achievements (and not just academic) but whether they consider a person’s ability to be critical may be open to question. • The “cognitive components” of Critical Thinking are probably impacted upon by professional education and training given to auditors. Whilst auditors are being encouraged to have greater skepticism, there is a danger that financial reporting standards, auditing standards, and firms’ audit methodologies may actually reduce that individual auditor’s ability to think critically. In order to qualify as an accountant, students have to learn the financial reporting and auditing standards – usually uncritically. Firms’ audit methodologies set out the approaches taken during the audit. Whilst this produces consistency, it could adversely impact on a person’s ability to think independently – one of the cognitive components needed for Critical Thinking. Shaub and Lawrence (1999) reported that someone who was new to auditing demonstrated a greater level of skepticism than their superiors – thus implying that there may be pressures to conform. • The “behavioral components” of Critical Thinking are likely to be employed during the actual conduct of the audit. Time pressures may reduce an auditor’s ability to employ Critical Thinking during the audit. Even if an auditor does apply Critical Thinking, consideration has also to be given to the implications for the individual. Someone that is more critical, or reflective,
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		<p>than others may take too much time on the audit and thus not be promoted within the audit firm (Ponemon, 1992) or have to leave the firm (Harrison and Carroll, 1991).</p> <p>I think I would view audit skepticism as a subset of Critical Thinking. The advantage of Critical Thinking is that it emphasizes not everyone may have the ability to be critical, that the professional training undertaken by auditors may reduce their ability to be critical, and that time pressures to finish the audit / keep within budget may mean that individuals see their careers suffer if they take time to be critical.</p>
79.	Glover-Prawitt	<p>In the monograph we also point out that it is important to recognize that both impediments and enhancements to professional skepticism occur at different structural levels (i.e., individual auditor, engagement team, audit firm, profession). This is important when designing potential enhancements to the standards and regulations so that potential enhancements are properly matched with the target structural level. Otherwise the enhancements may not improve the application of professional skepticism and instead just add unnecessary cost.</p> <p>Adjustments to quality control policies and/or standards may be warranted to incent and recognize the appropriate application of professional skepticism. Academic literature in auditing and other areas of management suggest it is common for supervisors to overweight the impact of outcome and underweight the importance of good judgment processes. For example, a recent academic study finds that audit staff's skeptical behavior is evaluated based on whether the staff's investigation of an issue ultimately identifies a misstatement.¹ However, the proper application of professional skepticism will typically not result in the discovery of misstatements. Therefore, it is important to encourage and recognize the appropriate application of professional skepticism—including both in situations that do and do not result in the discovery of a misstatement.</p>
80.	T-Ray	<p><i>The Principal Driver of Skepticism is Independence</i></p> <p>Auditors must be <i>willing</i> to recognize when audit evidence is contradictory or inconsistent with management's assertions, and when additional audit evidence is needed. This is why an independent mental attitude ("independence of mind") is so important.</p> <p>In the context of an audit, the concepts of independence and skepticism are very closely related. Accordingly, it is appropriate to discuss independence in connection with providing guidance on the application of professional skepticism. (Taken to an extreme, one might even argue that the concept of professional skepticism is unnecessary: independence of mind combined with an objective and critical evaluation of all audit evidence obtained should uncover contradictory audit evidence and identify the need for additional auditing procedures. I am not recommending this, however, as the notion of skepticism can help to foster an appropriate attitude.)</p> <p><i>Impediments to Professional Skepticism</i></p> <p>The PCAOB, in Staff Audit Practice Release No. 10, "Maintaining and Applying Professional Skepticism in Audits" ("SAPA 10"), identified a number of impediments to professional skepticism, including:</p> <ul style="list-style-type: none"> • incentives and pressures to build or maintain a long-term audit engagement, avoid significant conflicts with management, provide an unqualified audit opinion prior to the issuer's filing deadline, achieve high client satisfaction ratings, keep audit costs low, or cross-sell other services, • over time, develop an inappropriate level of trust or confidence in management,

¹ See Brazel, Jackson, Rech, Stewart, 2016, forthcoming in The Accounting Review, *The Outcome Effect and Professional Skepticism* (<http://ssrn.com/abstract=2349853>).

		<ul style="list-style-type: none"> feelings of pressure to avoid potential negative interactions with, or consequences to, individuals they know (that is, management), and scheduling and workload demands. <p>I believe the foregoing are significant impediments to the exercise of professional skepticism. Also, people may be predisposed to trust. As I discussed in my article, an academic study published in 2013 suggests that presumptive trust – a predisposition to believe interviewees – is the prevailing mental perspective of auditors, even when information available to the auditor suggests that there is a risk of deception.³ This finding is consistent with academic studies on deception detection, which provide abundant evidence that people tend to have a mindset of presumptive trust.⁴ Another academic study indicates that expectations are driven primarily by previous client experience; accordingly, because most auditors are not exposed to negative prior experiences, their natural traits prevail.⁵</p>
Individuals and Others		
81.	CBarnard	<p>It is also important that auditors should apply the appropriate level of professional skepticism when carrying out audit work. Whilst professional skepticism is difficult to measure in quantitative terms, the appropriate level of professional skepticism is the threshold at which the auditor's professional judgment is optimal, as described above. It is important to note that this threshold is not fixed, and its level may change depending on the particular circumstances of the audit. These circumstances include the complexity of the audit and its susceptibility to material misstatement, and the indications provided by audit evidence.</p> <p>Finally, I would like to add that professional skepticism can and should be supported and even enhanced by regular communication, management of expectations and ongoing cooperation with other entities - for example, including audit committees, regulators and boards of directors. This is alluded to in the consultation paper, and I strongly support this.</p>
82.	CK	--
83.	DAHughes	<p>The IAASB can address the requirements for an auditor's education and experience, and the way large, complex audits are organized, to improve the exercise of professional skepticism.</p> <p>Consider larger audits where all audit evidence is not examined by one auditor or where an auditor's expert examines documents relevant to a particular area, without an understanding of the potential broader issues arising in the audit. Skepticism is often related to the potential for issues to arise, triggered by a "gut feeling" that something is not quite right, causing the auditor to delve more deeply. Communications between auditors and with audit experts can identify actual risk, but it is far more difficult to document the potential for risk that might trigger the need for skepticism.</p> <p>Consider evidence presented in a digital format which extracts different "views" or reports from a comprehensive database of information. The report presented may satisfy the audit query, without revealing information that has not been requested.</p> <p>How is contradictory evidence identified in these circumstances?</p>

³ Lee, C., Welker, R. B., Wang, T., (2013) "An Experimental Investigation of Professional Skepticism in Audit Interviews", International Journal of Auditing, Vol. 17, pp. 213-226.

⁴ Ibid.

⁵ Popova, V., (2013) "Exploration of Skepticism, Client-Specific Experience, and Audit Judgments", Managerial Auditing Journal, Vol. 28, No. 2, pp. 140-160.

84.	JGrant	I agree with the analysis given in paragraph 30 of the ITC. I suspect that firms do not do enough to encourage audit staff to apply scepticism indeed the reverse probably applies in practice. Audit firms put their staff under significant pressure to meet budgets and to complete audits to demanding timetables – audit staff respond by doing the minimum work possible. Companies often make the problem worse by seeking to minimise audit fees and often by advancing reporting deadlines.									
85.	JK	<p>All the “transparency” reports I read document an excellent tone at the top in audit firms. But there also needs to be consideration of the “tone at the bottom” and the “tone at the middle.”</p> <p>Tone at the bottom</p> <p>Many current ADMs mean that audits are conducted by the most junior staff. They are motivated to meet budget and produce documentation. The culture at the bottom, and much of the learning, is driven by those who are a year or two senior.</p> <p>Tone at the middle</p> <p>The tone at the middle is again driven by budget and by a belief that reviewing documentation can determine if a good audit was done. And that perfecting documentation produces a good audit. As discussed above, this is not the case. Documentation that is not pretty, or that may indicate a problem can be deleted and replaced with prettier documentation. And the problem is probably forever buried. All encouraged and reinforced by standards and inspectors.</p> <p>Paragraph 4 – Enhancing the quality of judgements with documentation</p> <p>The exercise of professional judgement/skepticism must mean that two practitioners faced with the same or similar circumstance may (will probably) come to different conclusions. Standards setters sometimes recognize this but, alternatively, sometimes seem to imply that the proper exercise of judgement/skepticism will always mean that everyone will come to the identical “right” conclusion.</p> <p>The thrust of the ITC is to better document decisions, not to make better decisions. Following a checklist to document a decision is certainly easy and will produce acceptable documentation. But not necessarily a better judgement.</p> <p>Negative impacts of the emphasis on documentation</p> <p>Staff respond to what supervisors emphasize. If preparing documentation that shows a good audit was done (whether it was or not) is emphasized, this is what staff will concentrate their efforts on - documentation. This will take time away from actually doing the audit. And as long as it appears that the audit was properly done, supervisors and inspectors will all be happy. Again 26 and 27 emphasize documentation, not making good judgements.</p> <p>Paragraph 31</p> <table border="1"> <thead> <tr> <th></th><th>Sentence</th><th>Analysis</th></tr> </thead> <tbody> <tr> <td>1</td><td>It is important to acknowledge, however, that other factors related to the audit can inhibit auditors’ application of professional skepticism.</td><td></td></tr> <tr> <td>2</td><td>Examples of such factors include tight financial reporting deadlines, and heavy staff workloads, as well as time and resource constraints more generally.</td><td>These are not factors that inhibit skepticism. They are instead important factors that can result in an audit being badly done.</td></tr> </tbody> </table>		Sentence	Analysis	1	It is important to acknowledge, however, that other factors related to the audit can inhibit auditors’ application of professional skepticism.		2	Examples of such factors include tight financial reporting deadlines, and heavy staff workloads, as well as time and resource constraints more generally.	These are not factors that inhibit skepticism. They are instead important factors that can result in an audit being badly done.
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		<table><tr><td>3</td><td>Our stakeholders have suggested that auditors may approach an audit with a skeptical mindset at first, and appropriately identify issues that need attention, but may not always apply professional skepticism in following through with appropriate actions (i.e., revising risk assessment, designing and performing responsive audit procedures or properly documenting their findings and conclusions).</td><td><p>Not revising a risk assessment because of time pressure is not a failure of skepticism. And being more skeptical – or properly skeptical – will not fix the negative consequences of time pressures.</p><p>And further, spending time filling out a checklist that documents that you were really skeptical does not fix any of the problems.</p></td></tr><tr><td>4</td><td>This may ultimately call into question whether professional skepticism was appropriately applied in the audit.</td><td>Not fixed by documentation of skepticism.</td></tr></table>	3	Our stakeholders have suggested that auditors may approach an audit with a skeptical mindset at first, and appropriately identify issues that need attention, but may not always apply professional skepticism in following through with appropriate actions (i.e., revising risk assessment, designing and performing responsive audit procedures or properly documenting their findings and conclusions).	<p>Not revising a risk assessment because of time pressure is not a failure of skepticism. And being more skeptical – or properly skeptical – will not fix the negative consequences of time pressures.</p> <p>And further, spending time filling out a checklist that documents that you were really skeptical does not fix any of the problems.</p>	4	This may ultimately call into question whether professional skepticism was appropriately applied in the audit.	Not fixed by documentation of skepticism.
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4	This may ultimately call into question whether professional skepticism was appropriately applied in the audit.	Not fixed by documentation of skepticism.						
		<p>An important paragraph, with the exception of the last sentence. More important to address these concerns that to produce documentation.</p> <p>The last sentence of the paragraph incorrectly conflates failing to do the audit properly (not revising a risk assessment as necessary) with professional skepticism. And is says that not preparing proper documentation is inappropriate application of professional skepticism. It is confusing to incorrectly use professional skepticism as code for any time the audit is not done properly.</p> <p>The paragraph actually makes it clear that the problem is anything other than the application of skepticism.</p>						
86.	KKTuraga	Firstly, all professionals involved in accounting and audit have to practice professional skepticism without any deviation. The internal instructions in a firm/entity has to encourage the practicing professional skepticism resulting in best practices.						
87.	SDeViney	<p>I agree with the list of factors influencing professional skepticism listed in paragraph 23.</p> <p>If there is any question about definitions or expectations, these should be clarified. However, since professional skepticism is a state of mind that is influenced by personal traits (as described in paragraph 28), there is a limitation to how much professional standards can “fix” any perceived deficiency in practice short of attempting to make professional judgments for auditors.</p> <p>There are also inherent difficulties in evaluating professional skepticism. It is inseparable from the professional judgments on which it is applied (as described in paragraphs 24-27), and evaluating a professional judgment is itself a professional judgment. In other words, it can be difficult to distinguish between a deficiency and a simple difference of opinion.</p>						

PS3. Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?

	Respondent	Comments
Investors and Analysts		
1.	CalPERS	Additional recommended actions to address factors that inhibit the application of professional skepticism include enhanced: <ul style="list-style-type: none"> • Education; • Ethics training; • Leadership training; • Regulatory focus and enforcement.
2.	CalSTRS	Oversight bodies, audit inspections and peer to peer reviews are important opportunities to identify where issues may exist which are based on lack of professional skepticism or quality control issues. Audit firms must utilize these inspection reports as teaching tools and continuous education. We agree team level mitigating factors such as planning, brainstorming meetings, internal quality reviews, ethics training and compliance hotlines, partner rotations and peer to peer reviews may expand drivers to alleviate inhibiting factors which would contribute to a lack of professional skepticism, quality control or group audit issues. Again, tone at the top for the engagement team, avoiding groupthink or group pressures, job training and the comfort level and place to report issues are important components of mitigating the threat of poor auditor judgment and lack of professional skepticism. Without out quality, ongoing training and cultural aspects of audit firm leadership and professional associations emphasizing and providing incentive and support, auditors may fail to strengthen and maintain the exercise of sufficient professional skepticism.
3.	CFA	--
4.	IA	The Investment Association supports a joint working group being established between the IAASB, IESBA and IAESB. The International Education Standards and IESBA Code each address matters that impact professional scepticism, such as technical competence, professional skills, integrity, objectivity and independence, and it is important that these are considered as a whole. However, we are unclear whether the supervision and enforcement procedures for the IAASB's, IESBA's and IAESB's requirements are harmonised internationally. If not, then this needs to be addressed. Investors would also welcome audit firms being more transparent as to how they are applying scepticism. The FRC introduced a more discursive audit report, the Extended Form Audit Report, for accounting periods starting on or after 1 October 2012 for companies that are required to apply the FRC's Corporate Governance Code - Premium Listed companies. This required the auditor to disclose certain information on audit scope; audit materiality and risk of misstatement. We are currently in the third reporting cycle under these requirements and are encouraged by the progress. Initially there were quite mixed results but since then there has been

		more convergence in the matters reported and it is still evolving. In particular, in 2015 certain of the firms went further than the requirements and reported what they found when addressing the risks of material misstatement when their work had resulted in management changing the estimates in the accounts. In addition as noted under PS1 above, investors would appreciate more transparency on the changes in audit scope between the initial audit plan and the audit's completion. These disclosures clearly demonstrate that the auditor challenged management and exercised scepticism. It would be helpful if such reporting were to be promulgated internationally.
5.	ICGN	<p>There is a need for education, ethics training, leadership training and regulatory monitoring and enforcement. Organizations and regulators focused on those items are in a position to address the factors that inhibit the application of professional skepticism.</p> <p>Business is increasingly complex and global in nature, which in turn affects the skills and staffing requirements needed to conduct a high quality audit. Increased training of auditors, from junior members to partners and mid-career professionals, will give auditors up-to-date technical skills, assist in developing professional skepticism, and help identify potential material audit “misses.” The application of an appropriate degree of professional skepticism is a crucial skill for auditors. Unless auditors are prepared to challenge management’s assertions, they will not act as a deterrent to fraud nor be able to confirm, with confidence, that a company’s financial statements give a true and fair view.</p> <p>The ICGN also would suggest that professional schools of accountancy at universities provide better and more targeted coursework for auditors that prepare them through simulations on the appropriate application of professional skepticism under various audit scenarios.</p> <p>All participants in the financial reporting supply chain need to exercise skepticism. Companies, including internal audit, those that govern, and audit firms must exercise skepticism and promote an environment that encourages questioning and challenge. The tone at the top and culture of companies, along with whistle blower protections, support an environment in which auditors and others are encouraged to challenge management about whether their assertions are reasonable and to challenge themselves as to whether sufficient appropriate audit evidence was obtained.</p> <p>Greater transparency into the root causes of findings of lack of professional skepticism by independent audit regulators and audit firms in conducting their reviews of individual audits could drive better auditor performance. An approach to this is being implemented by the U.K. Financial Reporting Council (FRC) in requiring, on a comply or explain basis, audit committees to disclose significant findings from audit quality reviews in the annual report and how they and the auditors were responding to the issues raised.³¹ The FRC’s decision to periodically publish the names of the companies the audits of which were subject to an Audit Quality Review provides a basis for investors to make companies and their auditors accountable for making appropriate disclosures.³²</p>
6.	NZSA	PS1 to PS5. The NZSA recognises the need and desire for Professional Skepticism; but the user of a set of accounts will be more interested in what metrics can be produced to demonstrate Professional Skepticism has been applied by the Auditor in reviewing an organisation's operation/accounts.
7.	SAAJ	--

³¹ FRC Statement: Transparency of AQR Findings (20 Nov. 2014), available at <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2014/November/Transparency-of-AQR-Findings.aspx>.

³² FRC, *Feedback Statement and Impact Assessment, Enhancing Confidence in Audit: Proposed Revisions to the Ethical Standard, Auditing Standards, UK Corporate Governance Code and Guidance on Audit Committees* (April 2016), p. 23.

Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	See response to question 2.
12.	EBA	--
13.	ESMA	In view of the importance of professional scepticism, we encourage the IAASB to consider this area as a high priority and address it within a short timeframe. ESMA supports the global and coordinated approach within the three IFAC standard setting Boards but also suggests the IAASB to revise the relevant individual standards in order to better shape the auditor's behaviour when dealing with professional judgment and highly judgmental areas. In this regard, judgmental areas within each ISA might be identified and enhanced via clear principles on professional scepticism.
14.	H3C	<p><i>Need for appropriate recruitment and training</i></p> <p>In our view, the standards should stress the importance of considering skills in the recruitment process, and on keeping skills up-to-date through continuing education, or indeed developing new skills in relation to the changing environment (IT, financial information ...). Especially, in a context of fee pressure, these fundamental needs should not be disregarded.</p> <p><i>Ensure consistency between the ISAs, the IESBA Code of Ethics, and International Education Standards</i></p> <p>We draw the IAASB's attention to the need to strive for alignment between the provisions of ISAs, the IESBA Code of Ethics and the International Education Standards.</p> <p><i>Importance of documenting audit work</i></p> <p>Many inspection findings point to an absence or insufficiency of audit documentation. We believe it is important to reinforce the need for sufficient, appropriate audit documentation as a vehicle for supporting and explaining the work performed by the auditor.</p>
15.	IAIS	--
16.	IFIAR	<p>Additionally, the ITC sets out how the IAASB will stress the importance of professional scepticism as part of its work to revise ISA 540 [ITC §39]. Accounting estimates generally involve a high level of management judgment and therefore there is an increased risk of unintentional or intentional management bias. We support the IAASB in investigating further how ISA 540 can be strengthened to improve the focus on auditors approaching accounting estimates with a more questioning mind-set and in highlighting the need to consider the effect of contradictory audit evidence that comes to the auditor's attention, rather than an approach overly focused on corroboration.</p> <p>We encourage the IAASB to consider whether other standards might require comparable attention.</p>
17.	IOSCO	--

18.	IRBA	<p><i>Improvement in the Application of Professional Scepticism Driven by Enhancements to the ISAs</i></p> <ol style="list-style-type: none"> 1. We believe the ISAs can be further strengthened with respect to professional scepticism by including in each ISA specific requirement(s) for the documentation of the auditor's application of professional scepticism. This would strengthen the audit evidence of the auditor's application of professional scepticism and the exercising of professional judgement that will also assist those who perform internal monitoring reviews and internal/external inspections in understanding the auditor's thought process <i>[ITC question PS3]</i>. 2. In addition, we believe that the auditor's behaviour would be enhanced by including more emphasis on professional scepticism <i>throughout the audit process</i> in conjunction with further exploring behavioural, training and other issues <i>[ITC question PS3]</i>. 3. For example, we believe that more emphasis on professional scepticism is needed in the following ISAs <i>[ITC question PS3]</i>: <ul style="list-style-type: none"> • ISA 315 (Revised), ISA 330, ISA 500²¹ and ISA 520 – The auditor should apply professional scepticism when performing risk assessment procedures, in designing and implementing appropriate responses to those risks as well as when performing audit procedures (including substantive analytical procedures and analytical procedures near the end of the audit) so as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. • ISA 320 and ISA 450²² – The auditor should apply professional scepticism when applying the concept of materiality in both planning and performing the audit, and in evaluating the effect of identified misstatements (including any uncorrected misstatements). • ISA 620 – The auditor has a responsibility to apply professional scepticism when using the work of an expert. • ISA 600 and ISQC 1 – The ITC²³ states that the IAASB's current efforts on quality control and group audits provide opportunities to reinforce the concept of professional scepticism. However, the quality control section of the ITC (and in particular paragraphs 125-135) does not directly deal with how firm leadership responsibility and accountability, firm culture and strategy, as well as actions by the engagement partner and engagement quality control reviewer can better promote the application of professional scepticism in audits. We draw the IAASBs attention to the need to ensure that those topics are included in the scope of the revision of ISQC 1. <p>ISA 540 – The ITC²⁴ sets out how the IAASB will stress the importance of professional scepticism as part of its work to revise ISA 540. Accounting estimates generally involve a high level of management judgement and therefore there is an increased risk of unintentional or intentional management bias. We support the IAASB in investigating further how ISA 540 can be strengthened to improve the focus on auditors approaching accounting estimates with a more questioning mind-set and in highlighting the need to consider the effect of contradictory audit evidence that comes to the auditor's attention, rather than an approach overly focused on corroboration.</p>
19.	MAOB	--

²¹ ISA 500, Audit Evidence

²² ISA 450, Evaluation of Misstatements Identified During the Audit

²³ ITC, paragraph 38

²⁴ ITC, paragraph 39

20.	UKFRC	In December 2012, the FRC responded to calls for input to the IAASB's Post-Implementation Review of the Clarified International Standards on Auditing ²⁵ and highlighted a number of matters the IAASB could explore in relation to professional scepticism that were drawn from the FRC's Briefing paper discussed earlier. We propose that, along with our response to PS1 and PS2 above, the IAASB consider these matters in their deliberations. For example, a matter not specifically highlighted above is documentation. As already highlighted in the ITC, the ISAs have a number of documentation requirements that can help demonstrate that a degree of scepticism has been applied, but more needs to be done to make this more transparent both for internal and external review purposes. During our outreach activity, some users suggested that the auditor's report should set out how scepticism has been exercised (see PS1).
National Auditing Standard Setters		
21.	AUASB	It is generally considered that the areas to be explored by the IAASB in paragraphs 38 – 40 would be helpful and provide a useful start. However, the general view of the AUASB and expressed by many of its stakeholders is that the key to promoting greater professional scepticism is not necessarily through the ISAs alone, but more so with appropriate professional mentoring and competency training and development about the interplay between professional scepticism and professional judgement. It is also worth noting that with further enhancements to electronic audit methodology platforms and the use of sophisticated data analytics, these tools do not supplant the need for appropriate professional scepticism by auditors.
22.	CAASB	<p>The AASB and our Canadian stakeholders believe the following actions would be:</p> <p>Most meaningful:</p> <ul style="list-style-type: none"> • Ensure the concept of professional skepticism is consistently described across the International Standards (para. 37, 1st bullet) – This was identified by the AASB as well as our Canadian stakeholders as a key first step in this project. Ensuring consistency across these standards is necessary in order to provide better clarity to the understanding of the concept by practitioners. • Application guidance on how to demonstrate and document the application of professional skepticism throughout the specific ISA sections (para. 37, 2nd bullet) – As discussed in our response to PS1, the AASB is of the view that this would be the most meaningful action that could be undertaken by the IAASB. This would also include ensuring the use of appropriate terminology and language. The AASB and our Canadian stakeholders believe that this is the single biggest challenge currently faced by practitioners. • Importance of incorporating professional skepticism into ISA 540 (and other standards) (para. 39) – Similarly to the point above, it was clear from our consultations with our Canadian stakeholders that, although practitioners may understand what professional skepticism is, the key struggle is its application when fulfilling the requirements of each of the ISAs. Given this issue, in addition to the application guidance noted above, further detail as to how to apply professional skepticism needs to be incorporated into the requirements throughout the ISAs, in particular ISA 240⁷, 315, 500, 540, 600 and ISQC 1. These standards deal with a critical stage of the audit in ensuring the appropriate application of professional skepticism. Further explanation on how to apply professional skepticism within these standards themselves will be key to making significant improvements.

²⁵ <https://frc.org.uk/Our-Work/Publications/FRC-Board/FRC-response-to-IAASB-Post-Implementation-Review-o.pdf>

⁷ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

		<p>Meaningful:</p> <ul style="list-style-type: none"> • Determining how auditors can be effectively trained and their competencies further developed to enhance the application of professional skepticism (para. 37, 4th bullet) – Many of our Canadian stakeholders were of the view that professional skepticism is a mindset, and that there is a key role for education in enhancing its application. Therefore, the AASB believes it would be beneficial for the joint working group to consider whether enhancements to training and development of the practitioner’s competencies could assist in encouraging the application of professional skepticism in the audit. • Consider the potential effect of the evolving use of technology in audits and increasing business complexity, including information gathering about the use of audit data analytics (para. 37, 7th bullet and para. 40(a)) – Given the changes in how audits are being performed and in particular the increased trend towards data analytics in the audit, this is an area which would be meaningful for the IAASB to consider. Certain of our Canadian stakeholders raised concerns that the automation of the audit and use of checklists and templates is negatively impacting the application of professional skepticism today. Conversely, one of our Canadian stakeholders was of the view that the trend towards automating the audit and use of data analytics may assist with the application of professional skepticism by addressing certain of the impediments including certain auditor biases. Further research and guidance into this area to provide better clarity as to the appropriate view is therefore required. • Reviewing the role of engagement partners, EQC reviewers, audit committees, audit oversight bodies and others in influencing the appropriate application of professional skepticism (para. 38 (a)(i)) – The importance of “tone at the top” was a key theme throughout many of our Canadian stakeholder interactions. In particular, we heard a consistent view from management/preparers that the partner’s involvement in the audit has a direct and noticeable impact on the application of professional skepticism. Therefore, reviewing the role of engagement partners in influencing the application of professional skepticism is a meaningful action. Similarly, the importance of the EQC review was expressed by certain of our Canadian stakeholders and shared by the AASB. Finally, the effectiveness in the oversight by audit committees of management and of the work performed by the practitioner can have a positive impact on the application of professional skepticism. The AASB recognizes the challenges often faced by the IAASB in influencing change in audit committees; however any efforts in this area would be beneficial. • Reinforce that quality is essential in performing audits and highlight the importance of internal culture (para. 37, 8th bullet) – The AASB recognizes the importance of internal culture in enhancing the application of professional skepticism. Our consultations with our Canadian academics raised the issue of team dynamics on the audit engagement and how groupthink can have a significant effect on the application of professional skepticism. This is an area where limited focus has been placed when considering impediments to the application of professional skepticism. The joint working group’s efforts to emphasize quality in performing audits and highlight the importance of internal culture may have a positive effect on these challenges. <p>Not supported:</p> <ul style="list-style-type: none"> • Determining how International Standards should recognize and address the nature of the auditor’s personality traits and biases (para. 37, 5th bullet) – While the AASB acknowledges that biases could be more appropriately addressed in the ISAs (refer to PS1), the AASB is of the view that recognizing and addressing the nature of the practitioner’s personality traits is beyond the scope of standard setting and, in particular, the role of the IAASB. The AASB understands the challenges that
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		<p>personality traits can bring to the application of professional skepticism; however believes that this action may be more suitably considered by the International Accounting Education Standards Board (IAESB) as an area which would benefit from additional training. Such training could recognize the challenges that certain personality traits present, and educate practitioners on how to appropriately apply professional skepticism in light of those challenges.</p> <p>More information is needed:</p> <ul style="list-style-type: none"> • Development of a professional skepticism or professional judgment framework (para. 37, final bullet) – The AASB as well as our Canadian stakeholders were unable to conclude whether development of a framework would be meaningful. We believe that more information is needed to understand what would be included in the framework, and how it would be used, in order to determine whether the AASB would be supportive this action.
23.	CNCC-CSOEC	<p>We agree with the areas being explored in paragraphs 38-40, we have identified additional areas that also merit consideration. Regulators have been significant contributors to the professional skepticism debate. We suggest that the IAASB should continue liaising with them in order to have more insight into external inspection findings, especially in the area of accounting estimates, which seems to be one of the main causes from which professional skepticism criticism derives. The review of IFIAR report on survey of inspections findings is an important source of knowledge, particularly in relation to the results of their root cause analysis.</p>
24.	HKICPA	--
25.	IDW	<p>We have not identified any further areas beyond those noted in the ITC. In regard to the possible revision of ISA 540, we would encourage the IAASB to look at external inspection findings and related root cause analyses as discussed above, since accounting estimates are regularly recurring as focus issues for auditor oversight authorities.</p>
26.	JICPA	Please see our comment on PS2.
27.	MAASB	<p>We believe that the exploration of matters outlined in paragraphs 38 to 40 is appropriate.</p> <p>We recommend that actions need to be based on a comprehensive understanding of true root causes of perceived lack of professional scepticism or poor application/documentation of professional judgement. A more detailed analysis should be made on the shortcoming and audit deficiencies reported by regulators to identify the root causes.</p> <p>With respect to behavioural factors, changes to standards are likely to have limited impact. While application material can highlight these factors, there may be greater scope to influence and promote awareness of individual bias and other related factors through firm training.</p> <p>In addition, cultural and behavioural norms should also be examined as it may be likely that professional scepticism is not a “one-size-fits-all” for all.</p> <p>These are important to be undertaken before formalising the standard of professional scepticism. Otherwise, the proposed standard will have costs that not only exceed the benefits but also do not address the actual root causes and eventually fail to improve scepticism at the individual auditor or team level, or even reduce overall audit quality.</p> <p>We recommend that IAASB consider prioritising work on audit tools including data analytics in a digital environment.</p>
28.	NBA	--

29.	NZAuASB	<p>The NZAuASB supports the areas being explored. Other areas/actions to consider are:</p> <ul style="list-style-type: none"> • active involvement in debating the contextual factors and the roles of others in the financial reporting chain responsible for improving audit quality. • guidance on the application of professional scepticism in the other assurance engagement standards, that is, the ISAE 3000 series. There is an increasing demand for assurance engagements of non-financial information; • guidance on the application of professional scepticism and adequacy of evidence when using the work of experts. The auditor may not be experienced or knowledgeable to appropriately challenge the expert. Challenges arise where another expert comes up with a different answer.
Accounting Firms		
30.	BDO	<p>Further to our comments in PS2, we believe that ideas about how to maintain the appropriate level of skepticism in the engagement team collectively should be examined.</p> <p>As we noted in PS2, we believe that by creating a professional judgment framework there could be an opportunity to explore issues surrounding ISA 540, and other areas where significant judgment is used. By adopting a professional judgment framework (whether in an ISA or implementation materials), the IAASB would be able to highlight the requisite thought process to enable auditors (at all levels) to apply a more structured approach to application of professional skepticism. Having this approach would also remove the need to embed professional skepticism requirements within each ISA.</p>
31.	CHI	<p>We regard the listing of areas as complete. It could be added to, but paragraphs 37-40 cover a lot of matters that can be regarded, at this time, as being sufficient.</p> <p>Paragraph 38a mentions firm leadership and culture. These are vital to address if professional scepticism is to be strengthened.</p>
32.	DTT	<p>DTTL would encourage the working group to concentrate on key judgment areas of the audit first, so that the expected behaviors of auditors are unambiguously established at the engagement level before seeking to reinforce concepts at a higher level. Therefore, DTTL considers the work to revise ISA 540 as set out in paragraph 39 to be of high importance.</p> <p>In order to help ensure that the overarching concept of professional skepticism develops in tandem with audit innovation themes, DTTL would recommend that the work areas set out in paragraph 40 are also prioritized. In particular, the application of professional skepticism in the context of audit data analysis is key to the development and application of data analytics and other innovative audit procedures in the audit.</p>
33.	EYG	<p>The listing in paragraph 38-40 captures a selection of IAASB projects on the current Work Plan (namely, quality control, group audits, auditing estimates, risk assessment and data analytics). In general, we believe that it would be useful for the IAASB to explicitly consider the role and appropriate application of professional skepticism as part of any of its current or future projects to revise specific ISAs or ISQC 1. We believe that improvements to the standards related to the appropriate application of professional skepticism should not be considered only in context of the responses to this ITC; rather, improvements to the ISAs are a continuous process and the enhancements to promote the appropriate application of professional skepticism, as well as professional judgment, should be inherent in the scope of possible revisions to the standards on a go-forward basis.</p>

		<p>We strongly agree with the IAASB's planned exploration of the application of professional skepticism in auditing estimates as part of its project to revise ISA 540. The auditor judgments in this area are particularly complex and it is important for the auditor to recognize their own biases plus those of management in order to arrive at an appropriate conclusion.</p> <p>We also specifically agree with considering the role of professional skepticism in the risk assessment process as part of the IAASB's project to revise ISA 315.</p> <p>Refer to our response to PS4 for our specific views on the effectiveness of the actions for quality control and group audits in promoting the appropriate application of professional skepticism.</p>
34.	GTI	<p>We believe the areas being explored in paragraphs 38 - 40 are appropriate. Given the conceptual nature of professional skepticism, the IAASB may want to consider the development of a framework for practitioners to provide guidance in concluding whether professional skepticism was appropriately exercised during the performance of the audit. The framework could be included in the application material to the ISAs or it could be an alternative form of guidance, however, any such framework will need to have authority to facilitate a perceivable impact to audit quality at the engagement level.</p> <p>This framework could incorporate guidance as to the necessary factors to consider to demonstrate and document the application of professional skepticism when determining the sufficiency and appropriateness of audit evidence gathered during the audit and the mindset of the auditor during the performance of these audit procedures. Any such guidance would also need to be balanced with the fact that the auditor is a trained and experienced professional and as such it would be inappropriate to document every auditor judgment and consideration made during the completion of the audit.</p> <p>We agree that the application of professional skepticism in the audit of estimates is an important area. The ISAs currently encourage the notion of "anchor thinking" requiring auditors to understand the methods and models used by management in developing the estimate. This may result in the search for evidence that supports management assertions and assumptions rather than the search for contradictory evidence.</p> <p>The auditor is currently trained to approach the audit with a neutral mindset. Depending on the assertion and audit response selected, this may result in obtaining confirmation of the evidence management has presented. However, a change in the requirements to mandate a search for evidence that contradicts management's position would have unintended consequences and result in increased fees without commensurate increase in audit quality. We recommend that the goal is to continue to emphasize in the standards and other guidance, that the auditor is to approach the audit with a skeptical mindset, and the audit response and related evidence deemed necessary is driven by the risk assessment specific to the area under audit. We agree with the notion that contrary evidence always needs to be considered, but would be cautious in mandating "fishing expeditions" for such evidence.</p> <p>Professional skepticism is also an area where we believe that data analytics may be helpful as the evidence obtained from the performance of such analytics will naturally be more objective in nature as it provides an objective view of data patterns. However, auditors will still need to exercise skepticism in the interpretation and investigation of the data patterns. Also, changes may be needed in the standards to update for, and clarify, the acceptability of new forms and sources of audit evidence. In evaluating the sufficiency of evidence, new forms and sources of evidence that may give the auditor greater assurance could be considered to be less acceptable, if these new forms and sources are not addressed by standards and other guidance.</p>
35.	KPMG	<p>Nevertheless, professional standards have a critical role to play in driving improvements, and the need for enhanced clarity within the standards regarding the concept of professional skepticism is becoming ever-more important as audit models evolve, becoming increasingly more complex (for example, subjective estimates requiring significant auditor judgement, complex group audit structures),</p>

		<p>as well as being significantly affected by recent technological developments such as data and analytics. It would be helpful if the IAASB's standards were to reinforce key principles in this area, and clarify how these are to be applied given the specific risks identified in respect of a particular audit engagement. (PS 3)</p> <p>We are also supportive of the Board's acknowledgement that professional skepticism, as a fundamental mindset, needs to be applied throughout the audit process, and we welcome the recognition of the interrelationship between the exercise of professional skepticism and exercise of professional judgement during an audit. (PS 3)</p> <p>We note that some Firms, including KPMG, have developed models or frameworks to guide the critical thinking of their professionals. For example, in 2011, KPMG published "Elevating Professional Judgment in Auditing and Accounting: The KPMG Professional Judgment". We recommend that the IAASB consider these models, for example, we believe that the KPMG publication provides auditors with a helpful framework, which includes discussion of judgement traps and biases. (PS 3 and 4)</p> <p>Furthermore, we recommend that the standards provide clearer guidance as to how an auditor may demonstrate that professional skepticism has been appropriately applied throughout an audit. It would be helpful if the Board were to further explore the meaning of "sufficient appropriate audit evidence" in this regard since this determination may be difficult in the context of illustrating that professional skepticism has been appropriately applied, and how this may be evidenced directly in terms of auditor responses and outcomes, in particular when this varies as a result of the auditor's assessment of risk. This is an area that may be particularly subject to "second guessing" by others and therefore would benefit from clarity in the standards to help auditors to achieve their aim clearly and consistently. (PS 3)</p>
36.	PwC	<p>We support the cross Standard Setting Board project on this and believe that exploration of the matters outlined in paragraphs 38-40 is appropriate.</p> <p>Further to our comments in our response to question PS2 above on behavioural factors, we believe it is important for the Board to also consider:</p> <ul style="list-style-type: none"> Challenges arising from regulatory reporting complexity and deadlines. The increasing complexity of financial reporting, and often shortening timetables in which financial statements need to be filed (and therefore the audit completed) are relevant factors that place pressure on management, those charged with governance and the auditor and can have an impact on audit quality. We believe these factors should be evaluated to determine what actions may be appropriate, and by whom, in seeking to address such pressures; and <p>How the use of technology may impact the application of scepticism. Technology can be a powerful tool that helps the auditor focus in on key areas where further challenge of management is appropriate, thereby enhancing scepticism. Equally, there is a need to mitigate the risk that technology can cause the auditor to 'switch off' and not apply independent thinking or properly understand the objectives of audit tests and therefore not recognise those areas where scepticism really needs to be focused.</p>
37.	RBI	--
38.	RSM	Subject to our comments in PS 1 we believe the lists in 38 to 40 are complete.
39.	SRA	<p>Again reference is made to the Dutch project, mentioned above.</p> <p>Observation regarding quality control</p> <p>Standards on quality control, such as ISQC 1, should, in our view, be identical for both larger firms and SMP's.</p>

		These standards should include an option to make them scalable on an individual firm level. This could be achieved by inclusion of a general article, which allows to establish a firm quality system, taking into account the nature and size of the relevant firm.
Public Sector Organizations		
40.	AGC	We have not identified other areas for the Joint Working Group to explore. We assessed the matter of risk assessment and the audit of management estimates as being the most important areas to be considered.
41.	AGSA	<p>The IAASB should consider the application of professional scepticism in public sector audits (Audit of predetermined objectives and performance audit) as well as review and other assurance engagements.</p> <p>The impact of the level courage amongst auditors should also be considered as it may influence the appropriate application of professional scepticism. The ability for auditors to operating in a “safe” firm and auditee environment will influence the decisions they make.</p> <p>For a list of what we think are the most important area to be considered, please refer to P2 above relating to areas the IAASB should prioritise.</p> <p>A very pertinent area relates to what constitutes appropriate evidencing of the application of professional scepticism. This was also highlighted as one of the 7 public interest issues. Currently the application of professional scepticism is recommended by the standards as a response to specific situations eg Fraud. In our audits, we find this documented as a proposed auditors response, but it is rarely documented as to how this professional scepticism was applied. More clarity on this would be recommended.</p> <p>Eg: should the auditor document perhaps that certain evidence was supplied, however due to scepticism being deemed necessary for a specific individual or client, further corroborating evidence was requested from a 2nd individual or 3rd party?</p> <p>It is agreed that the use of appropriate terminology and language is vital to drive both appropriate auditor behaviour as well as the necessary documentation required. This will also assist to eliminate potential quality issues.</p>
42.	GAO	The areas being considered for quality control, group audit, and accounting estimates do offer opportunities to improve professional skepticism, but the concept of professional skepticism is broader than those projects. Future projects, such as the project to address issues with the auditor’s identification and assessment of risks in ISA 315, should consider a professional skepticism continuum based on the risk of material misstatement and other factors.
43.	INTOSAI	We would like to emphasize the importance of including a professional skepticism discussion in the revision of ISA 315. The risk assessment is crucial and the application of professional skepticism as it is only mentioned once in 315 and in paragraph A116.
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	In paragraph 38(a)(ii), we caution that there are limits to the extent to which firms can reward and incentivise auditors who demonstrate sceptical behaviour. Professional scepticism requires the auditor to challenge ‘just enough’ of management’s assertions. By focusing on areas where auditors didn’t demonstrate enough scepticism, audit oversight bodies risk encouraging auditors to always be more

		<p>sceptical, even in areas not identified as a high risk of material misstatement. However, spending time challenging the wrong areas of the audit might mean this additional scepticism actually damages rather than improves audit quality. Deciding in advance whether to challenge management's assertions and evidence requires the exercise of professional judgement in limited time in situations of uncertainty. Sometimes, with the benefit of hindsight, this judgement may turn out to be wrong.</p> <p>In paragraph 39, we support the IAASB's current approach to ISA 540 to separate the concepts of estimation uncertainty and complexity. The increasing prevalence of accounting estimates in financial reporting standards creates challenges for auditors, particularly where these estimates are highly uncertain, as in these circumstances auditors must choose between accepting management's estimate and taking further action. Where there is a wide range of possible outcomes as a result of financial reporting standards and that range is adequately explained by management's disclosures, the action to be undertaken by auditors is already well defined within ISA 540. However, it is in areas of high complexity where there are likely to be the biggest risks of material misstatement, particularly as new IFRSs introduce much more complexity.</p> <p>In paragraph 40(a), we support the IAASB's project on data analytics in the context of professional scepticism because, where the auditor has significant data at their disposal, the consideration of possible alternative outcomes takes on a different perspective. The IAASB is right to consider how ISAs might respond to these and other external technological changes.</p> <p>In paragraph 40(b), we see ISA 315 and ISA 240 as vital in helping auditors identify the audit issues in relation to which the exercise of professional scepticism should be prioritised. Areas where there is a higher risk of material misstatement or where there is a perceived higher risk of fraud would require a higher degree of professional scepticism than other areas. Conversely, other areas might not require a high degree of professional scepticism.</p> <p>Overall, however, we believe the IAASB should take care not to seek to standardise the approach to professional scepticism. It is not possible to exercise professional scepticism 'by checklist'.</p>
47.	AIC	We believe that the list of areas mentioned in paragraphs 38-40 is very complete.
48.	AICPA	The areas in paragraph 38-40 are important and represent logical places to start the process of improving the application material around professional skepticism; however, we do not consider the areas listed to be complete as evidenced by our recommendations in PS1, PS2 and PS4. It is clear that a firm's system of quality control is key to the proper application of professional skepticism at the specific engagement level. Similarly, often group audits and certain accounting estimates may represent areas where there is substantial judgment, complexity, and opportunity for management bias in the reported numbers. In areas that represent heightened risk, the IAASB can illustrate how to document audit procedures and evidence that demonstrates the appropriate application of professional skepticism. With respect to the auditor's consideration of the effect of contrary evidence, we agree that this notion could be embedded more directly in the standards, but would caution the IAASB not to set an expectation that the auditor always needs to actively search for contrary evidence as part of developing an audit response.
49.	APESB	--
50.	CAANZ	We are encouraged by the creation of the Joint Working Group, set up to take a coordinated approach to addressing issues relating to professional skepticism. As noted in PS1 above, we consider that developing application guidance and clarifying elements of the definition of professional skepticism are the most significant areas that can be explored by the IAASB. Clarifying the relationship between key concepts such as professional skepticism, objectivity, professional judgment and professional competence, and providing explicit linkages between the ISAs and other international standards should be key priorities.

		<p>We encourage the IAASB to promote the use of existing educational tools, such as our online professional skepticism training tool. Consistent training and education, consistently applied definitions and terminology and clearer guidance become increasingly more importance as different disciplines start to form a core part of the audit team (ie data analysts and IT professionals becoming integrated in the audit team).</p> <p>Another area that may be useful to explore is the inclusion of additional critical thinking training at the university level. It may be worth examining whether critical thinking training could be incorporated into accounting university courses.</p> <p>Additional specific areas that could be addressed as part of the IAASB's forward work-plan include focussing on areas where the auditor is required to exercise a high degree of professional judgment. While we acknowledge that efforts are underway in this respect with the revision of ISA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures, we consider that ISA 570 Going Concern would also be a useful standard to review.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	Yes
54.	CIMA	--
55.	CPAA	<p>Once the concept of professional scepticism is clarified, its role in quality control and group audits should be evaluated. In identifying further areas to be considered by the Joint Working Group, the drivers and impediments listed above relevant to quality control and group audits should be considered.</p> <p>In particular, the following matters could be addressed:</p> <ul style="list-style-type: none"> • Explain the relationship between professional scepticism, professional judgement and risk in the ISAs. • Explore the impact of cognitive biases, such as confirmation bias, and how these can be addressed by the auditor in order to exercise professional scepticism. • Clarify the expectations with respect to documentation of professional scepticism and whether the whole journey of the audit needs to be documented rather than just the final position.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	Yes. We believe the areas being explored, namely ISA 540, Quality Control, Group Audits and ISA 315 to be complete. From an SMP perspective it would seem that Quality Control and ISA 540 might be of most relevance.
58.	FACPCE	The actions of the different bodies involved must be aligned in order to achieve the goal of application of professional skepticism.
59.	FEE	<p>(55) While we agree with the areas explored in paragraphs 38-40, we have identified additional areas that also merit consideration. Additionally to paragraph 38 (a) (ii) stating "how a firm's policies and procedures reward and incentivize auditors who demonstrate sceptical behaviour in performing audits", the IAASB and the Joint Working Group should consider the "outcome effect", as indicated in the "State of the Art Research Related to Auditor Professional Skepticism", whereby seniors of the audit team appraise the employees on the outcome of their sceptical behaviour at a time adjacent to the audit work.</p>

		<p>Specifically, it should be clarified that even if, in hindsight, the auditor comes to the wrong audit judgement it does not necessarily mean that he/she did not apply professional scepticism at the time of the work.</p> <p>(56) Regulators have been significant contributors to the professional scepticism debate; we suggest that the IAASB should continue liaising with them in order to have more insight into external inspection findings, especially in the area of accounting estimates, which seems to be one of the main causes from which professional scepticism criticism derives. Notwithstanding this, we consider that dialogue with the firm is an important source of knowledge, particularly in relation to the results of their root cause analysis.</p> <p>(57) ISA 701 (New), Communicating Key Audit Matters in the Independent Auditor's Report, encourages the auditor to demonstrate professional scepticism and explain the professional judgement applied in the auditor's report. From matters that required significant auditor attention, the auditor is required to determine which of these were of most significance in the audit and, therefore, which key audit matters have to be included in the auditor's report.</p> <p>(58) Finally, we would have liked recognition that professional scepticism is a concept that needs to be considered alongside other factors. The auditor must balance the need to be professionally sceptical against applying professional judgement in practice, taking account of the facts and circumstances particular to that engagement at that point in time. The IAASB itself should consider how its standard setting is affected, for example an emphasis on corroborating evidence might be seen as precluding the exercise of professional scepticism.</p>
60.	FSR	--
61.	IBA	--
62.	IBRACON	<p>We believe that the listing of areas being explored in paragraph 38-40 is appropriate for promoting improvement in the application of professional skepticism.</p> <p>We also believe that a well-designed process to identify and determine the root causes leading to deficiencies in internal and external inspections may contribute to improving quality and addressing issues related to professional skepticism.</p>
63.	IBR-IRE	<p>(12) Consideration should be made as to how actions by management and TCWG can enhance the application of professional skepticism by the auditor.</p> <p>(13) Actions considered/taken should be actionable and put in practice without increasing the cost of an audit significantly; they should clearly focus on value adding initiatives and be relevant for audits of all types of entities.</p>
64.	ICAEW	<p>Yes, although it should be noted that there are many issues to consider under each area outlined in this section of the ITC. IFAC might use the work of the Joint Working Group to consider a promotional campaign regarding the qualities and skills that auditors of the future will need to have. We believe that the qualities and skills that auditors will need are at variance with the perception of the general public and the message about what is actually needed should be addressed quite broadly at educational establishments and others to ensure that the right sort of people are attracted to the profession and that they receive the appropriate training and development through their education.</p> <p>Whilst professional scepticism is a mindset issue, the effective exercising of scepticism by auditors is only possible if they have the necessary technical and analytical skills and the right experience to know when to challenge and how they should do that when they do. The need for these skills and this experience should be emphasised along with the developing the behavioural competencies.</p>

		<p>This way forward on this is linked to the IAASB's consideration of IES 8 (Revised) and the impact of that standard on the revision of ISQC 1. See our answer to QC9 below – we support IAASB explicitly highlighting the competencies in IES 8 (Revised).</p> <p>We consider that there is a need to learn from psychologists on professional scepticism. For example, audit group meetings, eg as required by ISA 240, whilst beneficial in many respects, might actually have a detrimental impact in reinforcing a group view or behaviour.</p>
65.	ICAP	--
66.	ICAS	<p>It is important that a challenging and questioning attitude is nurtured at all levels in the firm. We believe that this may have an impact on recruitment processes as equal emphasis may be placed on both the technical abilities and the softer skills of the auditor, ie the psychological awareness and courage of the auditor. This concept features in the ICAS paper: Moral Courage which acknowledges that it is not always easy to do “the right thing”, and that ethical behaviour and leadership requires moral courage.</p>
67.	ICAZ	--
68.	ICPAK	Yes
69.	ICPAU	Yes
70.	INCPC	<p>IAESB must emphasize that professional scepticism should be addressed in accounting programs and how that competence can be demonstrated and achieved by professionals. There should be a clear guidance about this subject otherwise everyone can understand professional scepticism in different ways.</p> <p>IESBA also must emphasize the importance of professional scepticism in auditors and the consequences for auditors for not exercising a good professional scepticism.</p> <p>Professional accountancy firms must consider: a) a good guidance on how to exercise professional scepticism and how sceptical judgment translates into sceptical actions, b) regular training about this subject, c) adapting working programs depending of the countries where the services are rendered, d) incentivising audit quality and, e) developing and following an audit judgement process and ensuring that auditors follow that process.</p>
71.	ISCA	--
72.	KICPA	<p>The list of areas being explored in the paragraph 38-40 relatively covers the most of areas IAASB or the Joint Working Group should consider. Additional attention needs to be made into areas that could trigger benefits from underscoring professional skepticism further, such as the use of audit data analytics.</p>
73.	MICPA	--
74.	SAICA	<p>117. We support the areas being explored under the heading “Our current projects – A step forward” in paragraphs 38-40 of the ITC. While various other possible actions are relevant and should be explored (as discussed in our comments to the other PS questions above), it makes sense to simultaneously ensure that the IAASB's standards are being enhanced as part of its projects to develop new or revised standards. In this regard strengthening professional skepticism as part of the IAASB's projects relating to quality control and group audits should receive priority, followed by other projects in accordance with the IAASB's work plan.</p>

75.	SMPC	<p>In our opinion, the list of areas being explored seems complete. We consider that the IAASB efforts related to quality control are the most important. In particular, how firm leadership and accountability, firm culture and strategy, as well as actions by the engagement partner can better promote the application of professional skepticism.</p> <p>We believe that it would be helpful if through the Joint Working Group there could be some clarification between professional skepticism and the relevant concepts in the IESBA Code of independence in mind and due care.</p>
76.	WPK	--
Academics		
77.	AAA	--
78.	AHigson	I would like your work on professional skepticism to be expanded to include Critical Thinking. I think you also need to consider the potential implications for the external auditors of a financial reporting expectations gap.
79.	Glover-Prawitt	--
80.	TRay	<p>The list of items included in paragraphs 37 through 40 is a good list. I do believe that care should be taken to avoid over-responding to this issue and providing too much guidance. I believe that providing clarity, as discussed in my response to your PS1, will go a long way in helping auditors to appropriately apply professional skepticism.</p> <p>As discussed in my responses to the previous questions, I do not believe it is worthwhile to develop and publish a framework on professional skepticism. Rather, I believe it would be far more useful to describe what it means to exercise skepticism. A similar discussion about what it means to exercise professional judgment also might be helpful.</p> <p>It would be useful to explore whether auditors should document their exercise of skepticism. In my article I made the following recommendation:</p> <p style="padding-left: 40px;">The audit partner on each audit engagement could be required, either by the audit firm as a matter of policy or by regulators as a part of professional standards, to document how the engagement team overcame each of [the] impediments [to skepticism] on the audit. For example, what steps did the audit partner and other engagement team members take to ensure the team was able to and did exercise sufficient skepticism in light of tight filing deadlines or strenuous workload demands? Is the engagement partner satisfied that the steps taken were sufficient? Did the engagement team work with client management to ensure that information was provided to the auditor with sufficient time to appropriately evaluate it? How did the team address the possibility that incentives or pressure to maintain or enhance the firm's relationship with the client would impair their judgment? What did the team do to resist developing an inappropriate sense of trust in management? Discussing these matters as a part of the audit engagement planning meeting also may enhance the professional skepticism exercised by engagement team members.</p>
Individuals and Others		
81.	CBarnard	--
82.	CK	--

83.	DAHughes	<p>The discussion in paragraphs 38-40 is not incorrect, but it is set at a high level.</p> <p>In my view, a lack of skepticism is more likely to arise through the auditor's lack of understanding or experience, and inadequate on-the-job supervision, rather than issues such as tone at the top or firm culture.</p> <p>For example, when auditing complex accounting estimates, there may be the situation where an auditor's expert is working with a client's expert, and they both have limited understanding of the business or financial reporting outside their particular area of expertise. This circumstance significantly limits the auditor's expert's ability to exercise professional skepticism by correlating evidence or explanations with information from other aspects of the audit.</p> <ul style="list-style-type: none"> • The way in which the lead auditor reviews the expert's work and questions findings will be critical to the exercise of skepticism. • The ability of the lead auditor to review thoroughly and ask appropriate questions depends on the knowledge and experience the lead auditor has of the subject matter. • Given the cost to the audit of employing an auditor's expert, together with the lower level of expertise held by the lead auditor in respect of the particular area, there may be a tendency to accept the work completed, without probing more deeply. <p>In more ordinary circumstances, work conducted by junior auditors with limited work experience will implicitly carry a lower level of skepticism than work carried out by more experienced auditors. The ratio of junior auditors to more experienced auditors will impact the extent of "on-the-job" training and how skepticism is demonstrated in the field.</p> <p>Similarly, when audit tests are carried out in isolation offshore, the nature of the inquiry becomes limited to the facts presented, rather than in the context of the broader audit.</p>
84.	JGrant	<p>As noted in paragraph 30 I think it is very important that partners and managers find the time to provide less experienced staff with coaching / on the job training. As described in the IAASB's own Audit Quality Framework this is one of the main ways that staff learn how to be sceptical. This issue needs emphasis in ISQC1, it could also be usefully explored by IAESB.</p>
85.	JK	--
86.	KKTuraga	<p>Business employed accountants have to develop the concept of implementing professional skepticism and firmly deliberate with those charged with governance, audit committees and board of directors the importance of practicing professional skepticism which helps accountability to follow ethical practices. The concept needs to be widely exposed and discussed at length. To impress that integrity of professional is of more importance than diluting for the benefit of a few handful unethical persons damaging the reputation of the organization. In this context IAESB, IEBA and all other standard setters both national and international to associate together to develop mechanism for implementing professional skepticism uniformly.</p>
87.	SDeViney	<p>The greater consensus in the profession about what professional judgments should be made in a particular circumstance, the clearer the application of professional skepticism will be. Therefore, the most important area would emerge from future projects, such as the project to address issues with auditor's identification and assessment of risks as noted in paragraph 40(b).</p>

PS4. Do you believe the possible actions we might take in the context of our current projects relating to quality control and group audits will be effective in promoting improved application of professional skepticism? If not, why?

	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	--
3.	CFA	--
4.	IA	--
5.	ICGN	--
6.	NZSA	PS1 to PS5. The NZSA recognises the need and desire for Professional Skepticism; but the user of a set of accounts will be more interested in what metrics can be produced to demonstrate Professional Skepticism has been applied by the Auditor in reviewing an organisation's operation/accounts.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	--
Regulators and Audit Oversight Authorities		
9.	BCBS	--
10.	CPAB	--
11.	EAIG	See response to question 2.
12.	EBA	<i>Application of professional scepticism</i> Professional scepticism should be applied throughout an audit and the auditing standards should require an auditor to remain skeptical and to demonstrate professional scepticism throughout the audit process. While we agree with the current efforts of the

		IAASB in reinforcing the concept of professional scepticism, which are listed in paragraphs 38-40 of the Overview of the ITC, we would emphasise and add the following:
13.	ESMA	--
14.	H3C	<p><i>Need for appropriate recruitment and training</i></p> <p>In our view, the standards should stress the importance of considering skills in the recruitment process, and on keeping skills up-to-date through continuing education, or indeed developing new skills in relation to the changing environment (IT, financial information ...). Especially, in a context of fee pressure, these fundamental needs should not be disregarded.</p> <p><i>Ensure consistency between the ISAs, the IESBA Code of Ethics, and International Education Standards</i></p> <p>We draw the IAASB's attention to the need to strive for alignment between the provisions of ISAs, the IESBA Code of Ethics and the International Education Standards.</p> <p><i>Importance of documenting audit work</i></p> <p>Many inspection findings point to an absence or insufficiency of audit documentation. We believe it is important to reinforce the need for sufficient, appropriate audit documentation as a vehicle for supporting and explaining the work performed by the auditor.</p>
15.	IAIS	--
16.	IFIAR	<p>We believe that auditor's behaviour would be enhanced by ensuring that requirements sufficiently reflect the application of professional scepticism throughout the audit process in conjunction with further exploring behavioural aspects, training, clearer language in the standards and other issues. Although not a complete list, we believe that the IAASB should ensure that the following standards sufficiently promote the application of professional scepticism:</p> <ul style="list-style-type: none"> • ISA 315, ISA 330 ISA 500 and ISA 520 – when performing risk assessment procedures, in designing and implementing appropriate responses to those risks as well as when performing audit procedures (including substantive analytical procedures and analytical procedures near the end of the audit). • ISA 320 and ISA 450 – when applying the concept of materiality in both planning and performing the audit, and in evaluating the effect of identified misstatements (including any uncorrected misstatements). • ISA 620 – when using the work of an expert. • Senior management within the firm taking responsibility for audit quality is critical for setting an appropriate tone at the top and culture within the firm. In order to achieve this, the IAASB should consider defining clear responsibilities regarding firms' leadership being 'in control' of audit quality, including promoting a culture which supports appropriate professional scepticism, and related firm governance matters. • We encourage the IAASB to clarify and highlight throughout the standards, the fundamental principle of professional scepticism in the performance of an EQCR. This can be reflected in changes that require the engagement quality control reviewer to review and challenge the audit work performed in respect of the judgemental and higher risk areas, thereby clearly addressing the significant decisions made by the engagement partner. <p><i>Timing of the projects</i></p>

		<ul style="list-style-type: none"> We welcome the IAASB's initiative to address the topics of professional scepticism, quality control and group audit as a whole. However, we note that the ITC indicates that the way forward for the professional scepticism project will significantly lag behind the way forward for the projects on quality control and group audits. We draw the IAASB's attention to the need to remain committed to an integrated approach in addressing professional scepticism within other current projects. The difference in timelines should not result in differing enhancements of consideration of professional scepticism in ISQC 1, ISA 220 and ISA 600.
17.	IOSCO	--
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	We support the approach outlined in paragraph 38 of the ITC, subject to our response to PS1 that proposes that the IAASB should explore embedding an approach that aligns performance outcomes with the perspective of users, and our response to PS2 and PS3, particularly in relation to developing an audit firm environment in which sceptical behaviour is encouraged.
National Auditing Standard Setters		
21.	AUASB	The AUASB is of the view that actions in the context of the current projects mentioned could go further – for example, the development of a guidance framework on how to appropriately apply professional scepticism might be useful, in particular with regard to the linkages to professional judgement, risk assessment and on audit engagements. The AUASB urges the IAASB to embrace this aspect in conjunction with the impending revision of ISA 315 and consequential revisions to related standards. A cautionary view however, is that an increase in the level of prescription in ISAs might result in a greater shift from “principles” to “rules” in the ISAs with a consequent “checklist” approach to conducting audits and potentially adverse impact on audit quality.
22.	CAASB	Refer to response in PS2 and PS3.
23.	CNCC-CSOEC	Yes, we believe that in general the possible actions that the IAASB might take in the context of the current projects relating to quality control and group audits could have positive effects in promoting the application of professional skepticism.
24.	HKICPA	--
25.	IDW	We refer to our response to the questions in this section above. In particular, we believe it would be helpful for the IAASB to develop principles for how professional skepticism is to be taken into account in its standard setting.
26.	JICPA	Yes, we believe that the possible actions the IAASB might take in the context of quality control and group audits projects will be effective in promoting improved application of professional skepticism. At the same time, however, failures or lack of professional skepticism revealed in inspection findings mainly seem to be issues to do with the implementation of the auditing standards. We therefore doubt that substantial improvements could be achieved merely by changing the wordings used in ISQC 1 and the ISAs, and recommend that the IAASB clearly explains the following in revising the standards: Specific circumstances that are observed on the issues, and analysis of causal factors

		Why the IAASB believes these issues should be resolved by revision to the standards
27.	MAASB	We consider that elements of the proposed Quality Management Approach (“QMA”), reinforcement of firm leadership responsibilities for audit quality and aspects relating to group audits do have the potential to influence behaviours and reinforce the application of professional scepticism of staff within a firm
28.	NBA	--
29.	NZAuASB	Linking the application of professional scepticism to the risk approach more clearly in the standards, in particular those that address the audit of highly judgemental or subjective areas, and clarifying what constitutes evidence of the application of professional scepticism and how auditors should document the application of professional judgement in their working papers, may be effective in promoting improved application of professional scepticism.
Accounting Firms		
30.	BDO	We believe that many of the proposed changes highlighted in the ITC in relation to ISQC 1 and ISA 600 may also help to promote professional skepticism. We also understand that the IAASB chose to incorporate ISQC 1 and ISA 600 alongside the professional skepticism suggestions in a single ITC due to the range of crossover issues. We do, however, caution that the identification, application and documentation of professional skepticism issues are more pervasive and should not just been seen through the lens of ISQC 1 and ISA 600.
31.	CHI	We agree that the projects relating to quality control and group audits will improve the application of professional scepticism.
32.	DTT	<p>DTTL believes quality control and group audits are areas where explicit consideration and explanation of “what good looks like” in terms of guidance on how professional skepticism is appropriately applied would be beneficial for all stakeholders. However, as noted in DTTL’s response to PS1 above, auditor and regulator understanding of the exercise of professional skepticism has advanced from a simple overarching concept and, therefore, consideration of skepticism in the context of significant audit judgments needs to be at a more granular level.</p> <p>With regards to quality control and group audits, it is important that the proposed changes to standards and guidance identify factors that may inhibit professional skepticism so that auditors can remain alert to avoid or overcome such barriers. For example, in relation to quality control, accelerated reporting timetables may make it challenging to the exercise appropriate professional skepticism by limiting the time to consult fully. Additionally, in relation to group audits, different native languages used in audit documentation can be a challenge in the group auditor’s exercise of professional skepticism.</p>
33.	EYG	<p>We believe that, in general, the possible actions that the IAASB might take in the context of the projects relating to quality control and group audits can have positive effects in promoting the appropriate application of professional skepticism. However, there are several proposals within the ITC to increase requirements to address certain issues. It is important that any such increased requirements allow for the effective application of professional judgment, which in turn promotes the appropriate application of professional skepticism, based on the facts and circumstances of the engagement.</p> <p>Specifically, we believe:</p> <ul style="list-style-type: none"> ▶ A quality management approach should set objectives for firm policies that address quality control, including objectives that address the drivers of appropriate application of professional skepticism, particularly in the areas of human resources

		<p>and engagement performance. However, sufficient flexibility should be provided to the firms to determine the specific policies that are needed to meet those objectives based on the firm structure and governance, as well as the risk profile of its engagements (refer to our response to QC1 regarding our views of the IAASB’s approach to implementing a quality management approach to ISQC1).</p> <ul style="list-style-type: none"> ▶ An appropriate balance between prescription and flexibility needs to be achieved in the requirements related to the responsibilities of the engagement partner and the engagement quality control reviewer, including with respect to group audits. Both roles are critical to the appropriate application of professional skepticism in an audit. Sufficient flexibility in the requirements should be maintained in order to allow those fulfilling these roles to determine how best to achieve the objectives based on the facts and circumstances of the engagement (refer to QC2 and QC6 for further details about our views on the proposed actions in these areas). ▶ An integrated risk-based approach to the revisions to ISA 600 (which we recommend in our response to GA1) will improve the connection and relationship among the significant judgments that specifically apply to a group audit (e.g., those related to scoping the audit, as well as those related to determining the nature and extent of communication with component auditors and involvement and review of their work). These judgments culminate in a conclusion on whether sufficient appropriate audit evidence has been obtained based on the aggregate evidence to which often many component auditors contribute. We believe measuring and evaluating the “sufficiency” and “appropriateness” of audit evidence in the context of a group audit can be especially challenging, and IAASB efforts to consider a professional skepticism framework along the lines we describe in our response to PS1 could be helpful in achieving the objective of enhancing the quality of group audits, in particular.
34.	GTI	--
35.	KPMG	<p>It is therefore important that Firms consider whether their current policies and procedures encourage appropriate behaviours by individual auditors. In this regard we refer to the proposals regarding a risk-based QMA approach, which we believe will be helpful to Firms in achieving their audit quality objectives, in particular by describing potential impediments to the exercise of professional skepticism as risks to a Firm’s ability to achieve its quality objectives, and by providing guidance in terms of possible responses to those quality risks, including guidance relating to policies and procedures regarding monitoring and remediation. (PS 4)</p> <p>We note that some Firms, including KPMG, have developed models or frameworks to guide the critical thinking of their professionals. For example, in 2011, KPMG published “Elevating Professional Judgment in Auditing and Accounting: The KPMG Professional Judgment”. We recommend that the IAASB consider these models, for example, we believe that the KPMG publication provides auditors with a helpful framework, which includes discussion of judgement traps and biases. (PS 3 and 4)</p> <p>In exploring changes to the standards, we consider that it would be helpful if the IAASB were to explicitly acknowledge that the application of professional skepticism is intrinsically linked to the auditor’s assessment of risk, and that the auditor’s response may therefore vary as a result of the auditor’s assessment of risk, which would include obtaining more audit evidence or less audit evidence in different situations. This is currently alluded to in ISA 240.A33, which acknowledges ways in which increased professional skepticism can be exercised as part of the overall response to address the assessed risks of material misstatement due to fraud, but we believe that this material should be given significantly greater prominence, as well as clarification that in terms of the auditor response, less audit evidence may be obtained, as well as more, as a result of the auditor’s assessment of risk. (PS 4)</p>

		In this regard it would be helpful if the IAASB were to clarify whether different “levels” of professional skepticism may be applied, and how this would relate to the current description of professional skepticism as an “attitude” or “mindset”. Furthermore, it would be helpful if the IAASB were to describe factors an auditor may consider in determining whether professional skepticism has been appropriately applied, based on the particular circumstances of an individual engagement. (PS 4)
36.	PwC	<p>As noted in our responses to the questions above, the effectiveness of actions will largely be determined by whether the changes to standards are an effectual response. We believe it is critical to determine the root causes of comments raised by regulators about insufficient scepticism – specifically, to which of the underlying questions we highlight in our response to question PS2 those issues relate. For example, if the underlying question is in fact one of what level of audit evidence is sufficient, superficial changes to encourage a more questioning mindset are unlikely to resolve those issues.</p> <p>We encourage the Board to evaluate the effectiveness of the approach adopted in the Clarity project when revising ISA 240 – embedding actions designed to encourage the application of professional scepticism into the ISA. Is there evidence that doing so had a direct impact in reinforcing application of scepticism by auditors? That would usefully inform the Board on the likely effectiveness of including additional explicit requirements or references to professional scepticism in the ISAs.</p> <p>We consider that elements of the proposed QMA, reinforcement of firm leadership responsibilities for audit quality, and aspects of the proposals relating to group audits (communications and review and evaluation of the work of component auditors) do have the potential to influence behaviours and reinforce the application of professional scepticism of staff within a firm.</p>
37.	RBI	--
38.	RSM	Subject to our comments in PS 1 we believe the possible actions to be complete.
39.	SRA	--
Public Sector Organizations		
40.	AGC	--
41.	AGSA	<p>We believe that the possible actions the IAASB might take in the context of the IAASB’s current projects relating to quality control and group audits will be effective in promoting improved application of professional scepticism.</p> <p>However, we also believe the following are also very important in assisting the auditors to understand the concept of professional scepticism:</p> <ul style="list-style-type: none"> • Enhancing the definition of professional scepticism • Developing a professional scepticism framework to understand the concept of professional scepticism and support auditors in their consideration of whether they have appropriately applied professional scepticism in the context of individual engagements and group audits. • Enforcing the importance of applying this concept across the ISA’s <p>These will also support any actions taken by IAASB relating to quality control and group audits.</p>

		<p>The IAASB indicates that it could possibly reinforce the need to appropriately apply professional scepticism when revising ISA 600 and ISQC1.</p> <p>In doing this, the IAASB should also clarify in ISA 600 what would constitute evidence of the appropriate application of professional scepticisms and how the auditors should document the application of professional scepticisms in their working papers. Par 50 of ISA 600 is very broad in terms of what the group engagement team should include in the audit documentation.</p>
42.	GAO	The proposed actions for the projects related to quality control and group audits may improve the application of professional skepticism, but the concept of professional skepticism is broader than those projects.
43.	INTOSAI	This question is very difficult to answer. Though we believe that the suggested revisions and actions is a step forward, starting with requiring more audit evidence on conclusions, clearer responsibilities for the leadership etc.
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	Within quality control, we see scope for integrating a consideration of the engagement and firm factors that might enhance or inhibit the application of professional scepticism into the firm's Quality Management Approach. In the context of group audits, this could include consideration of threats to professional scepticism at the component level.
47.	AIC	Effectively, we believe that the actions to be taken, relating to quality control and audits group will be effective not only in promoting better application of professional skepticism if not better effective practice, since strengthening both areas require necessarily a strengthening of professional skepticism, otherwise no action taken in the quality control and audit groups would not be real. They would cause effect.
48.	AICPA	Yes, in the short-term these areas are a good place to start—particularly as the IAASB considers a more complete and practical definition of professional skepticism. The revised application material drafted for these projects may include guidance on obtaining and documenting evidence in a way that demonstrates the appropriate application of professional skepticism. For example, the application material could illustrate in an area of heightened risk that it may be appropriate to specifically consider alternative explanations for a reported outcome. It is helpful that the IAASB also has projects on auditing estimates and risk assessment that will also be important in the consideration of further addressing professional skepticism in potential revisions to those standards.
49.	APESB	--
50.	CAANZ	We consider the possible actions proposed in relation to quality control and group audits will assist in promoting improved application of professional skepticism and positively reflect the IAASB's desire to address impediments to audit quality that can be addressed through changes to the ISAs. However, in general, we do not support the creation of additional mandatory requirements as we consider this will deflect from the focus on applying professional skepticism. Additional mandatory requirements are likely to increase the time required to understand what audit procedures need to be undertaken, and may encourage a compliance ('tick box') mind-set.

		<p>We address changes to quality control and group audits later but believe the intention to:</p> <p>(1) clarify the timing and substance of review procedures performed by the engagement quality control (EQC) reviewer; and</p> <p>(2) evidence significant or substantive discussions between the engagement partner and EQC reviewer may assist enabling the audit file to evidence key areas of the audit in which professional skepticism was applied.</p>
51.	CAI	--
52.	CAQ	--
53.	CIIPA	Effectiveness is difficult to measure or predict. There are many factors that will affect effectiveness not least culture, business environment and other regulation.
54.	CIMA	--
55.	CPAA	Effectiveness of the possible actions identified will depend on clearly identifying the meaning of the concept of professional scepticism, keeping the requirements principles-based and not creating an increased compliance focus. Any possible actions could be expanded to address more of the drivers and impediments identified in PS2 above.
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p>We would expect the work to be done by the IAASB to have a positive impact but given our belief that the matter of professional skepticism cannot be improved by standard setting alone it would seem to us that this work must be performed in tandem with work being done by other stakeholders particularly those able to affect education, training and culture.</p> <p>We would also caution against making small changes to a whole raft of ISAs to reinforce professional skepticism in each ISA when to our mind there appears to be a call for a paradigm shift not simply incremental improvement. Again we would note our suggestion that guidance on how to document and hence demonstrate professional skepticism (see our response to PS3 above) is considered.</p>
58.	FACPCE	--
59.	FEE	Yes, taking these possible actions could be effective in promoting improved application of professional scepticism.
60.	FSR	In general, we are supportive of having more focus on professional skepticism and the related documentation issues. And we agree that the main aspect of skepticism is having a questioning mind. We do, however, recognize that the regulators etc. want the profession to be more skeptical which could entail that we perhaps should be inquisitive, as opposed to just questioning in relation to assessing audit evidence. We are not convinced that the initiatives in the ITC will actually lead to more or better skepticism. As we see it, the initiatives will mainly lead to better documentation of professional skepticism. If there is a need for more or better skepticism, we believe a more radical approach is called for, especially to support a consistent approach to professional skepticism in the context of the very diverse cultures around the world.
61.	IBA	--

62.	IBRACON	The actions that the Board has been taking are very important to promote the improvement on the application of professional skepticism and strengthening the audit profession.
63.	IBR-IRE	Yes, we believe that taking these possible actions could be effective in promoting improved application of professional skepticism.
64.	ICAEW	Yes, although as noted earlier, the IAASB is one of many relevant players and effectiveness will therefore be dependent on the collective effort.
65.	ICAP	--
66.	ICAS	It is important that a challenging and questioning attitude is nurtured at all levels in the firm. We believe that this may have an impact on recruitment processes as equal emphasis may be placed on both the technical abilities and the softer skills of the auditor, ie the psychological awareness and courage of the auditor. This concept features in the ICAS paper: Moral Courage which acknowledges that it is not always easy to do "the right thing", and that ethical behaviour and leadership requires moral courage.
67.	ICAZ	--
68.	ICPAK	--
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	<p>We are supportive of the direction of and background behind IAASB's intention to underscore the responsibility of accounting firms' leadership and their required commitment to public interest, in relation with quality control, and believe that such direction and efforts could contribute to promoting improved application of professional skepticism.</p> <p>As for reflecting relevant descriptions on ISQC 1 as a form of mandatory requirements, however, we suggest IAASB consider impacts the requirements could have in practice, triggered by different rules and regulations, and practices, in relation with accounting firms' governance, and responsibility issues arising from different quality control system of accounting firms, resulting from the respective law and regulation of jurisdictions, and their effectiveness accordingly.</p> <p>We support IAASB's plan to revise 600 to improve and clarify the responsibility of the group engagement team relating with the use of the work of the component auditor. We also recognize the significance of application of professional skepticism of the group engagement team, regarding the use of the component auditor's work. Emphasis on the application of professional skepticism in ISAs could rather increase the expectation gap, depending on the degree of emphasis, details, and scope. Given this, we suggest IAASB review additional measures to ease the expectation gap, such as illustrating circumstances exceeding the appropriate level of applying professional skepticism.</p>
73.	MICPA	--

74.	SAICA	<p>118. We have also identified the following areas that could be considered in addressing professional skepticism as part of the current IAASB standards, and the IAASB's projects to develop new and revised standards:</p> <ul style="list-style-type: none"> ➤ Strengthening the exercise of professional skepticism and professional judgement by enhancing certain elements of engagement performance that are already addressed in the standards, such as consultation and the use of experts. ➤ The possibility to include in each ISA a "professional skepticism" heading. This section could reinforce the basic requirement to exercise professional skepticism and include additional application material relevant to the exercising professional skepticism in relation to the particular audit area and the objectives of the auditor in that ISA. ➤ Enhancing the documentation requirements and application material with respect to adequately evidencing the exercise of professional scepticism.
75.	SMPC	<p>Whilst we support the Board exploring opportunities to reinforce the concept of professional skepticism as part of its current projects, there is a risk that including specific requirements for professional skepticism throughout individual ISAs may give the impression it is only needed in certain areas or more so than in other places. We believe the Board should focus on how the application material can provide more guidance on ways to exercise and demonstrate professional skepticism. This is particularly important in those areas where the auditor's judgment is required to be applied. For example, in areas of accounting with high estimation uncertainty this may include considering a number of different scenarios and documenting why management's decision is appropriate.</p>
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	<p>I am not sure whether your work on quality control and group audits will improve the application of professional skepticism because of the points I have made in response to PS3.</p>
79.	Glover-Prawitt	--
80.	TRay	<p>Yes, I believe changes, as discussed, below, in the systems of quality control of audit firms can help to improve the exercise of professional skepticism.</p> <p>Tone at the Top. Perhaps most important to the appropriate exercise of professional skepticism is the tone set by top management of the audit firm that is carried down through the leadership ranks and embraced by the engagement partners. The partners and staff need to know they are expected to be skeptical and that their decisions to seek more evidence in response to their professional skepticism will be supported and rewarded. Communications from top management about audit quality must be substantive and sincere, and not overshadowed by communications on other firm goals, such as growth, profitability and maintaining or enhancing client relationships. Sharing examples of situations in which audit teams discovered important information through their exercise of professional skepticism may enhance these communications.</p> <p>The PCAOB has recently recognized that some auditing firms have improved in this area.</p>

		Inculcate Skeptical Behavior. Auditing standards and academic research both acknowledge that the personal traits of the auditor are important to the auditor's ability to exercise professional skepticism. An academic study published in April 2010 by Baylor University Professor Kathy R. Hurtt identified six personal traits, or characteristics that define professional skepticism. These include a questioning mind, suspension of judgment, search for knowledge, interpersonal understanding, autonomy, and self-esteem. Educators, the profession and firms can all play a role in training and instilling these characteristics and associated behaviors in auditing professionals. A recent academic study provides evidence that a course that emphasizes forensic accounting appropriately influences students' fraud-related judgments (e.g., it resulted in higher initial risk assessments relative to potential fraud risk factors and increased the students' skepticism) and that the trained students' improved performance could persist. This suggests that auditor can be trained to behave skeptically.
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	<p>Quality control is always after the event. Quality control will not identify circumstances where the auditor has not "joined the dots" between prima facie conflicting pieces of evidence, where more probing questions should have been asked. There is often nothing to review in these circumstances.</p> <p>On-the-job supervision and review, and timely communications between team members are critical to promoting a skeptical mindset. As audits become more dissected to match procedures with ISA requirements, the role of a reviewer with oversight over all audit findings becomes the most critical role for exercising skepticism.</p> <p>The IAASB should focus attention on how audit tasks are allocated across multi-jurisdictional audit teams (including off-shoring of audit tasks) and the importance of the reviewer's role in these circumstances. The education and experience of the auditor with responsibility to review with a skeptical mindset is also critical to audit quality.</p>
84.	JGrant	<p>There is a limit to what can be done in standards to achieve behavioural change. That said the current focus on revision of to ISAs 220 and, in particular, ISQC1 gives IAASB a good opportunity to try to increase the degree of scepticism applied in practice. If the root causes of the problem are attitudes and work pressure within the audit firms, ISQC1 can help by mandating actions such as:</p> <ul style="list-style-type: none"> • Requiring the EQCR review to focus on scepticism, • Building more in mentoring / coaching and the appraisal process, • Specifying areas of audit quality (such as scepticism) to be used in staff appraisals, and • Specifying areas of audit quality (such as mentoring / coaching) to be used in partner and manager appraisals. <p>Another way is to mandate audit steps in area specific ISAs that force scepticism to be applied in practice. This approach was taken by IAASB in previous years in the revision to a number of standards including ISAs 240, 540 and 550. One of the downsides of this approach is, of course, added prescription in the standards.</p>
85.	JK	--

86.	KKTuraga	--
87.	SDeViney	Yes. Professional skepticism ultimately means controlling for appropriately robust evaluations underlying professional judgments.

PS5. What actions should others take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?

#	Respondent	Comments
Investors and Analysts		
1.	CalPERS	--
2.	CalSTRS	Fostering an appropriately independent and challenging skeptical mindset of the auditor – CalSTRS believes tone at the top, firm culture and ongoing training are important components to fostering an independent and challenging skeptical mindset. Also, each audit firm should develop a process to provide guidance internally to staff on inspection reports, quality issues and where the firm can develop best practices to handling key issues and the resolutions of these issues. We believe ongoing education, training and mentorship will expand auditor competencies to apply professional skepticism.
3.	CFA	--
4.	IA	--
5.	ICGN	<p>There is a need for education, ethics training, leadership training and regulatory monitoring and enforcement. Organizations and regulators focused on those items are in a position to address the factors that inhibit the application of professional skepticism.</p> <p>Business is increasingly complex and global in nature, which in turn affects the skills and staffing requirements needed to conduct a high quality audit. Increased training of auditors, from junior members to partners and mid-career professionals, will give auditors up-to-date technical skills, assist in developing professional skepticism, and help identify potential material audit “misses.” The application of an appropriate degree of professional skepticism is a crucial skill for auditors. Unless auditors are prepared to challenge management’s assertions, they will not act as a deterrent to fraud nor be able to confirm, with confidence, that a company’s financial statements give a true and fair view.</p> <p>The ICGN also would suggest that professional schools of accountancy at universities provide better and more targeted coursework for auditors that prepare them through simulations on the appropriate application of professional skepticism under various audit scenarios.</p> <p>All participants in the financial reporting supply chain need to exercise skepticism. Companies, including internal audit, those that govern, and audit firms must exercise skepticism and promote an environment that encourages questioning and challenge. The tone at the top and culture of companies, along with whistle blower protections, support an environment in which auditors and others</p>

		<p>are encouraged to challenge management about whether their assertions are reasonable and to challenge themselves as to whether sufficient appropriate audit evidence was obtained.</p> <p>Greater transparency into the root causes of findings of lack of professional skepticism by independent audit regulators and audit firms in conducting their reviews of individual audits could drive better auditor performance. An approach to this is being implemented by the U.K. Financial Reporting Council (FRC) in requiring, on a comply or explain basis, audit committees to disclose significant findings from audit quality reviews in the annual report and how they and the auditors were responding to the issues raised.³³ The FRC's decision to periodically publish the names of the companies the audits of which were subject to an Audit Quality Review provides a basis for investors to make companies and their auditors accountable for making appropriate disclosures.³⁴</p>
6.	NZSA	PS1 to PS5. The NZSA recognises the need and desire for Professional Skepticism; but the user of a set of accounts will be more interested in what metrics can be produced to demonstrate Professional Skepticism has been applied by the Auditor in reviewing an organisation's operation/accounts.
7.	SAAJ	--
Those Charged with Governance		
8.	AICD	<p>We note that Board Audit committees have a critical role to play in promoting professional scepticism on the part of auditors. In Australia the Australian Securities and Investments Commission (ASIC, www.asic.gov.au) as the regulator encourages directors to maintain a strong focus on audit quality. For example, ASIC's Information Sheet 196 Audit quality: The role of directors and audit committees recommends actions that directors and audit committees should take to promote audit quality in several areas, including:</p> <ul style="list-style-type: none"> • Recommending the appointment of an auditor, including seeking assurances on the firm's commitment to quality, audit transparency measures and related matters; • Assessing potential and continuing auditors, including audit partner accountability, audit plan development, resourcing and the extent of reliance on external experts; • Facilitating the audit process, including appropriate incentives for management assistance for audits, access to appropriate financial information and systems; • Establishing ongoing communications with the auditor, including inviting auditors to committee meetings, providing direct contact with the board, and ensuring that the committee and board bring a high degree of professional scepticism to engagement; • Maintaining auditor independence, including policies on independence, ensuring the committee forms independent views on relevant estimates and treatments, ensuring auditors explain the basis of their independence declaration, amongst other items; and

³³ FRC Statement: Transparency of AQR Findings (20 Nov. 2014), available at <https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2014/November/Transparency-of-AQR-Findings.aspx>.

³⁴ FRC, *Feedback Statement and Impact Assessment, Enhancing Confidence in Audit: Proposed Revisions to the Ethical Standard, Auditing Standards, UK Corporate Governance Code and Guidance on Audit Committees* (April 2016), p. 23.

		<ul style="list-style-type: none"> Assessing the quality of audits, including whether auditors demonstrate a high degree of professional scepticism in the process and audit transparency.
Regulators and Audit Oversight Authorities		
9.	BCBS	The roles of the engagement partner, quality review partner, and those charged with governance within a firm with respect to fostering an attitude of professional scepticism in the firm's audit staff should be enhanced and clarified.
10.	CPAB	<p><u>Leadership responsibilities to encourage professional skepticism</u></p> <p>We note that specific reference is made to governance of the firm, including leadership responsibilities for quality (paragraphs 125-135). However there is no clear statement that the concept of professional skepticism will be reinforced in this element of the quality control standards. We recommend that the IAASB include this in their review of the responsibilities of firm leadership given it is a key component of audit quality. In particular, the importance of applying professional skepticism and being seen to apply professional skepticism needs to be emphasized.</p>
11.	EAIG	See response to question 2.
12.	EBA	<p>Engagement partner's role: the role and responsibilities of the engagement partner could be enhanced and described more clearly and in more depth (in line with our comments below on engagement partner's involvement in the audit), as it is very important, both in terms of the actions of the engagement partner towards the audited entity and the culture that a partner fosters within the team. The engagement partner should ensure that all members in an audit team are sufficiently trained and coached, including those with less experience, and should evaluate and foster professional scepticism all along the audit process including the planning stage.</p> <p>Engagement quality control reviewer's role: the EBA supports enhancing the role of the engagement quality control ('EQC') reviewer in order to ensure appropriate application of professional scepticism. For example, (in line with our comments below on the EQC reviewer's involvement in the audit), our view is that the EQC reviewer should be fostering the exercise of professional scepticism from the planning stage of an audit, challenging the audit team as to how it will be exercised.</p> <p>Those charged with governance role: the dialogue between auditors and audit committees/ those charged with governance in an entity should also address the application of professional scepticism by the auditors.</p>
13.	ESMA	--
14.	H3C	<p><i>Need for appropriate recruitment and training</i></p> <p>In our view, the standards should stress the importance of considering skills in the recruitment process, and on keeping skills up-to-date through continuing education, or indeed developing new skills in relation to the changing environment (IT, financial information ...). Especially, in a context of fee pressure, these fundamental needs should not be disregarded.</p> <p><i>Ensure consistency between the ISAs, the IESBA Code of Ethics, and International Education Standards</i></p> <p>We draw the IAASB's attention to the need to strive for alignment between the provisions of ISAs, the IESBA Code of Ethics and the International Education Standards.</p> <p><i>Importance of documenting audit work</i></p>

		Many inspection findings point to an absence or insufficiency of audit documentation. We believe it is important to reinforce the need for sufficient, appropriate audit documentation as a vehicle for supporting and explaining the work performed by the auditor.
15.	IAIS	<p>International audit standards</p> <p>As explained above, the IAIS believes that the definition of ‘professional skepticism’ should be more encouraging for auditors to undertake actions and decisions in the gathering of evidence. As a starting point, the IAASB could develop a common definition or framework of professional skepticism across the ISAs, IESs and IESBA Code (jointly with the IAESB or/and the IESBA) to better ensure a shared understanding for its appropriate application. The IAASB could also develop further application guidance.</p> <p>Moreover, the IAIS believe that audit standards and guidance could be written in a way to better encourage a skeptical mind-set. The words used could change the current confirmatory framework (obtain evidence to support management’s assertion) to a framework which leads more to auditors seeking evidence both supporting and disconfirming management’s assertions.</p> <p>Oversight committees and others charged with governance (e.g. audit committees)</p> <p>Whilst it is the responsibility of the auditor to ensure that an appropriate degree of professional skepticism is applied in an audit, senior management and relevant oversight bodies such as audit committees can have a significant influencing role through activities such as overseeing the integrity of financial reporting and the related processes (including internal financial controls and the effectiveness of the audit process).</p> <p>This emphasises the need for strong governance generally and, in particular, the importance of the responsibility that independent oversight bodies such as audit committees can have in assessing whether the auditors have executed a high quality audit.</p> <p>The IAIS is convinced that such oversight committees, and in particular audit committees, have a critical role to play in enhancing audit quality. Consequently, the IAIS supports on-going efforts to strengthen the role and responsibility of the audit committees, particularly:</p> <ul style="list-style-type: none"> – To raise the level of expertise and independence; and – Improve communications between audit committees and external auditors. <p>Currently, it is difficult for audit committees to differentiate between audit firms on the basis of audit quality. There is little line of sight, or transparency, to the audit committee with respect to the quality of audit work. Audit committees must largely rely on the audit regulators’ inspections to ensure audit firms have appropriate processes in place to promote audit quality.</p> <p>Audit committees would be able to better evaluate and select audit firms on the basis of audit quality, if they had more relevant and meaningful information and indicators of firm audit quality, and perhaps this would lead to less focus on price as the key factor in the external audit purchase decision.</p> <p>Firm / network</p> <p>As mentioned above, the tone at the top of the audit firm can have a significant influence on the engagement team’s attitude and practices in the application of professional skepticism. Consistent communication from firm leadership that professional skepticism is integral to performing a high quality audit, backed up by a culture that supports it, could improve the quality of work performed.</p> <p>Also, audit firm hiring practices may be able to pre-screen candidates for behavioural traits linked to a propensity to apply professional skepticism. Indicators or experiences that exemplify certain key traits in a candidate – perhaps such as high integrity and fortitude - could be helpful in ensuring that new hires have the traits necessary to exercise professional skepticism.</p>

		<p>Furthermore, a firms' internal systems can help promote better application of professional skepticism in a number of ways, including through:</p> <ul style="list-style-type: none"> – Greater recognition of audit quality considerations with performance appraisals, promotions, and compensation schemes; – Training that continually reinforces the appropriate application of professional skepticism and professional judgment throughout the audit; – Ensuring engagement personnel have appropriate technical training, experience, and time required to apply sufficient professional skepticism; – Effective review and coaching by experienced members and regular communication and brainstorming sessions among engagement team members; and – Striking the right balance between efficiency (including use of IT approaches) and application of professional skepticism through more time intensive personal dialogue and inquiry of client staff. <p>Also, independent regulatory oversight and inspections including appropriate public reporting of results may work to increase professional skepticism at the firm level.</p> <p>Audit oversight bodies</p> <p>IFIAR has identified (from audit inspection findings) that insufficient exercise of professional skepticism during the audit is a factor underlying many audit deficiencies. The sharing of an audit regulator's inspection findings with external auditors and audit committees, and more general information on audit quality indicators/ metrics, will better hold external auditors accountable for remediating their audit deficiencies.</p> <p>Also, increased information sharing between audit regulators and financial services prudential supervisors can help put further pressures on specific firms with audit clients in that sector to fully address their audit quality issues, and also more broadly if the audit quality issues are seen to be systemic in nature or have financial stability implications.</p>
16.	IFIAR	--
17.	IOSCO	<p><u>Role of the Auditors and Firms in Enhancing Professional Skepticism</u></p> <p>Enhancing the standards is one means through which professional skepticism could be promoted in the audit. However, other solutions worth pursuing may include encouraging firms to strengthen the apprenticeship model within the firm that enables less seasoned auditors to learn their skill by observing more experienced auditors. This model would also encourage a more intentional communication of lessons learned by experienced auditors through mentoring of younger auditors. It also facilitates having more seasoned auditors on hand to engage with seasoned executives of the audit client when discussing complex issues or conducting difficult conversations. The Board may also wish to consider as part of its quality control standards how firms can encourage audit engagement team members at all levels to respectfully challenge each other's conclusions or thought processes, where helpful.</p> <p>We agree with the Paper's emphasis on appropriate "tone at the top" by firm leadership in enabling the application of professional skepticism. However, we believe additional emphasis should be included in standards compelling firm leadership to ascertain that all engagement team members, including mid-level management and more junior team members understand the importance of exercising professional skepticism in the performance of the audit. Setting this "tone in the middle" can empower mid-level</p>

		<p>management and junior engagement team members to embrace a mindset of professional skepticism while not diminishing the engagement partner's overall responsibility for audit quality.</p> <p>We believe that experienced auditors who understand the company's business, who are competent in accounting and auditing standards and are appropriately supervised, are better equipped to exercise professional skepticism as compared to those individuals who do not possess these qualities. In addition, the appropriate and timely involvement (for example, earlier rather than later) of the engagement partner and the Engagement Quality Control (EQC) reviewer in the audit process can help cultivate an environment in which professional skepticism can thrive. Similarly, moving appropriate testing and audit work forward to an interim period (rather than at year-end) which could be subsequently updated, to better even out workloads can help promote an environment in which professional skepticism is not stifled by time constraints.</p> <p>We note that paragraph 31 of the Paper highlights that "auditors may approach an audit with a skeptical mindset at first, and appropriately identify issues that need attention, but may not always apply professional skepticism in following through with appropriate actions". This statement regarding not following through on application of professional skepticism is written in paragraph 31 in the context of "tight financial reporting deadlines, and heavy staff workloads, as well as time and resource constraints more generally". We believe that these resource constraints and heavy staff workloads may point to the lack of due care by the auditor, rather than solely a lack of professional skepticism, consistent with our earlier comment regarding the interplay between professional skepticism, due care, and objectivity. We encourage the Board to consider whether there is incremental application guidance that could be added to ISQC 1 (e.g., in the context of ISQC 1 paragraph A24 "the estimation of personnel needs") that could acknowledge that the application and/or effectiveness of professional skepticism, objectivity, and due care may decrease as the staff workload increases beyond a reasonable level. The Board may also wish to consider including additional ISQC 1 guidance that calls for review of partners' workload and adequate planning of engagements to address significant issues as early in the audit process as practical.</p> <p>Additionally, we encourage the Board to work with the IESBA to see how the requirements could be strengthened to be more aligned with the Ethics Code's requirement of "Professional Competence and Due Care" as we note that Section 130 of the Code states:</p> <p>130.1 "The principle of professional competence and due care imposes the following obligations on professional accountants: [...] (b) To act diligently in accordance with applicable technical and professional standards when providing professional services."</p> <p>130.4 "Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis."</p> <p>130.5 "A professional accountant shall take reasonable steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision."</p> <p>Consistent with auditors acting thoroughly and on a timely basis as referenced in paragraph 130.4 of the Code, it may be beneficial for the Board to work with the IESBA to see how the ISAs and/or ISQC 1 could include guidance to encourage firms and engagement teams to more actively monitor and manage workloads. In addition, similar to the supervision responsibilities referenced in paragraph 130.5 of the Code, the Board may also find it useful to work with the IESBA to consider whether one aspect of this supervision could be to monitor the overall staff workloads to prevent exhaustion levels that may lead to a decrease in audit quality. Further, the standards can provide additional guidance to assist auditors in determining whether they have sufficiently engaged the use of experts based on the nature and complexity of work involved. Auditors could also be encouraged to step back, after having</p>
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		complied with the ISAs, and consider whether the transaction or area under consideration has been appropriately accounted for and audited based on the facts and circumstances. These various strategies may help mitigate the influence that time pressures or reporting deadlines may have on the propensity of the auditor to exercise professional skepticism.
18.	IRBA	--
19.	MAOB	--
20.	UKFRC	In addition to our comments on work that we have encouraged the IAESB to take forward (referred to in response to PS1) we support the actions already outlined by the IAASB with regard to the IAESB and IESBA joint working group activities.
National Auditing Standard Setters		
21.	AUASB	<p>The AUASB is firmly of the view and encourages the IAASB to actively engage with universities, professional accounting bodies and auditing firms to bolster their efforts in respect of enhancing auditor training to focus on professional scepticism, to promote a better understanding of its attributes and its linkages to risk assessment, professional judgement, and conduct of the audit.</p> <p>It needs to be recognised that root causes of any perceived shortcomings in the application of professional skepticism are invariably associated with inadequate audit evidence. To this end, the role of senior personnel in setting the right “tone at the top” and the importance of mentoring trainee auditors in knowing what questions to ask and what to be on the lookout for should be promoted further. In this regard, the direct assistance of the IAESB would be helpful in working jointly in this area. Further engagement with IESBA, with regard to recognition of appropriate professional scepticism vis-à-vis the objectivity attributes and independence requirements as they apply to auditors under the Code of Ethics is also considered necessary. It would also be useful to encourage those charged with governance (including audit committees) to reasonably challenge management on information presented to them and also encourage the asking of challenging questions of auditors.</p>
22.	CAASB	The AASB and our Canadian stakeholders acknowledge the challenges expected for the IAASB in addressing this important topic area. In particular, difficulties, given the fact that many of the impediments to professional skepticism are actions which the IAASB is unable to influence directly. Given these challenges, the AASB is supportive of the IAASB’s collaboration with the International Ethics Standards Board of Accountants (IESBA) and IAESB, in addition to others. To be successful, certain of these groups have a role to play in carrying out many of the possible actions supported by the AASB.
23.	CNCC-CSOEC	<p>We have identified actions that others, such as audit committees, regulators and national auditing standard setters, could take to enhance the application of professional skepticism.</p> <p>First, audit committees, we believe that they have a strategic role in asking the auditor to explain where and how professional skepticism has been exercised. Audit committees could establish procedures to provide feedback to the external auditor as to whether they have delivered high quality work and whether the application of professional skepticism was adequate to safeguard the stakeholders’ interests. Moreover, Audit committees should also consider the adequacy of the amount of the audit fees with the work to be done and the requested professional skepticism to apply. In many cases, invitations of tenders result in significant drops in fees. If so, audit committees should have to justify how such significant decreases can safeguard the stakeholders’ interests.</p> <p>As far as the regulator community is concerned, co-operation between standard setters (IASB, IESBA and IAESB) and practitioners to establish a joint definition and a common understanding of their expectations as to how the concept of professional skepticism should be applied in practice would be welcome.</p>

		With regards to the auditing standard setters, we consider that the IAASB should further structure standards in a way that instils a skeptical mind-set, for example urging auditors to identify 'what could go/went wrong', to understand if a quality control finding, e.g. wrong risk assessment, was caused by inappropriate application of professional skepticism, and encourage auditors to challenge management. However, we believe that the IAASB should explicitly state that caution needs to be taken on the auditor's perspective to focus only on those areas where they feel that challenge is the most warranted, i.e. consider the risk-based approach and areas where material misstatements could be identified. Introducing too much of professional skepticism would lead to challenging 'everything' over and above the identified risks, which will be impractical from an audit point of view.
24.	HKICPA	--
25.	IDW	<p>As explained above, we believe that "fortitude" as explained in the ITC is an issue that the IESBA ought to address. This would require an exploration of the interaction, and separation from one another, of independence of mind, objectivity, integrity and due care, and professional skepticism. However, at this stage it is important that the IESBA not undertake projects that fundamentally change the concept of professional skepticism to applying beyond assurance engagements.</p> <p>Furthermore, the impact that culture has on these factors ought to be explored (e.g., issues relating to social status).</p> <p>We believe that the IAASB and the IESBA would be the most appropriate standard setters to act in this context. Any actions by the IAESB would need to be consistent with those of the IESBA and IAASB.</p> <p>Member Institutes and firms need to deal with issues such as the recruitment of employees with appropriate personal traits and determining incentives and disincentives that foster professional skepticism. These issues could also be addressed in ISQC 1.</p>
26.	JICPA	--
27.	MAASB	<p>Audit committees and others charged with governance should play a key role in reinforcing scepticism by challenging and asking probing questions to auditors.</p> <p>We also believe the practical application of professional scepticism should form the major teaching pedagogy in both academic and professional studies. The International Accounting Education Standards Board ("IAESB") could facilitate a dialogue exploring education responses to professional scepticism and seeking to understand the evidence that such training has on the application of professional scepticism in practice.</p>
28.	NBA	--
29.	NZAuASB	<ul style="list-style-type: none"> Universities, Professional accounting bodies and firms should focus training on the application of professional scepticism and critical thinking. The lessons learned from audit failures and what has gone wrong must be better incorporated into training and educational material for auditors. Firms and engagement partners should set the 'tone at the top'. The IESBA should emphasise professional scepticism in the Code of Ethics and link it to the principles in the Code. TCWG and audit committee members should be skeptical and challenge management more on the information prepared, and also ask the auditors challenging questions.
Accounting Firms		

30.	BDO	<p>We support the creation of the Joint Working Group and hope that this will lead to greater coordination between the IFAC SSBs on a topic that clearly has overlap from educational, ethical and auditing perspectives.</p> <p>One of the critical areas for the IAESB is how they can provide implementation support to assist IFAC member bodies (and audit firms) to identify how individuals can demonstrate the achievement of learning outcomes in professional skepticism (and professional judgment). We would also encourage IFAC SSBs to focus on the professional skepticism traits at all levels of the profession (part of this could be to consider those completing Initial Professional Development as well as the types of learning that could occur at the Continuing Professional Development phase) including consideration of cultural biases or behavioral traits. To assist the IAASB, the Joint Working Group could explore further work or discussions with IFIAR, regional or collective bodies such as GAA⁶, FEE⁷ and CAPA⁸ as well as others that operate in this space, such as the Center for Audit Quality.</p>
31.	CHI	<p>We have noted in our response to PS2 that IAASB, IESBA and IAESB should ensure that their standards are consistent in their approach to professional scepticism.</p> <p>We also noted in our response to PS2 that there is a role for national regulators and standard setters, professional bodies and professional educators to address cultural issues that inhibit the application of professional scepticism. To achieve this, outreach from international standard setters will be required.</p>
32.	DTT	<p>As the concept of professional skepticism is developed, it is important that these developments are communicated to other stakeholders. In particular, it is important that work on the identification of causal factors related to regulatory findings is shared more widely as this work encompasses enhancing professional skepticism. In addition, DTTL recommends continued coordination with the International Accounting Education Standards Board (IAESB) and IESBA in order to ensure a unified objective in the advancement of guidance relating to professional skepticism. As such, DTTL is supportive of the IAASB, IAESB, and IESBA Joint Working Group that is continuing to consider this topic holistically, including further exploration of the notion of “fortitude” (i.e., courage to critically challenge management’s judgments and assertions).</p>
33.	EYG	<p>Our views on the actions that others should take to address the appropriate application of professional skepticism are as follows:</p> <ul style="list-style-type: none"> ▶ IAESB/IESBA – Although we believe the lead responsibility amongst the IFAC boards for enhancing the application of professional skepticism in audits is firmly that of the IAASB, we encourage continued coordination between the IAASB and IAESB/IESBA on the topic. We believe the other boards have supporting roles to play in addressing the underlying competencies and ethical behaviors of the auditor that promote the appropriate application of professional skepticism. ▶ Those charged with governance – We believe audit committees have a responsibility to understand the auditor’s application of professional skepticism as part of the audit and to seek clarification from the auditor on how significant auditor judgments were made, as necessary. Audit committees may also consider whether the timelines and resources for the completion of audit or significant areas of the audit seem appropriate, and assist the auditor (in coordination with management) in obtaining timely and appropriate access to the entity’s information and resources, as necessary. In addition to understanding and enforcing the auditor’s application of professional skepticism, we also believe members of those charged with governance have their own responsibility to be professionally skeptical in discharging their responsibilities for oversight

⁶ Global Accounting Alliance

⁷ Federation des Experts Comptables Europeens

⁸ Confederation of Asian and Pacific Accountants

		<p>of the financial reporting process, including setting an appropriate tone-at-the-top that influences the integrity of the entity's financial reporting.</p> <p>► Firms – We believe firms have a responsibility for considering the requirements of the IAASB, IAESB and IESBA standards holistically, as they relate to designing policies for human resources and engagement performance that promote the application of professional skepticism, but also specifically as they relate to the design and content of training programs. Training programs should address not only technical training, but also behavioral training, which we believe is critical to the appropriate implementation of professional skepticism.</p>
34.	GTI	<p>Professional skepticism may be promoted effectively through careful consideration by firms of their business models and of their cultures. For example, in jurisdictions where it is only acceptable for more experienced team members to question management of the client, the business model would provide for more senior people to be allocated to the engagement. The business model and culture of the firms should also be closely monitored such that appropriate actions can be, and are, taken to improve the approach to, and application of, professional skepticism.</p> <p>Changes in professional education and education by the firms themselves could also be considered, including ensuring that only individuals with appropriate characteristics and qualifications are recruited and that the appropriate amount of time and support is provided to those individuals to help them develop critical thinking skills and to exercise those skills.</p> <p>In conjunction, these actions would drive professional skepticism from the bottom of the firm upwards and from the top of the firm downwards.</p> <p>The IAESB recently published a Consultation Paper: Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities, in which it posed the question of "what action, if any, should the IAESB take to improve professional competence related to the appropriate exercise of professional skepticism and professional judgment?" If a project is undertaken as a result of this consultation, the IAASB should ensure that it works with the IAESB to develop an appropriate and coordinated approach to professional skepticism.</p>
35.	KPMG	<p>We also recommend that the IAASB work closely with IAESB, and with those responsible for the education and training of professional accountants across jurisdictions, to address enhancements to educational materials and processes in this area, to help ensure that these place appropriate emphasis and provide clear guidance on the application of professional skepticism. It would be helpful if such educational materials were to focus not only on technical knowledge, but also on "soft skills" such as how to question effectively and how to deal with difficult situations/ individuals. (PS 5)</p>
36.	PwC	<p>We believe that audit committees and others charged with governance have a key role to play in encouraging and reinforcing scepticism – providing robust oversight over, and asking probing questions about, the audit. See also our response to question G1(c).</p> <p>Audit inspection bodies also have a role to play in working with standard setters and practitioners to collectively agree on the underlying nature of issues raised with respect to professional scepticism, as we discuss in our response to question PS2. That includes addressing the issue of "hindsight" bias, as acknowledged in the GPPC paper. This bias can lead observers of others' judgements to conclude after the fact that judgements made before additional events occurred or additional information became available were incorrect or lacking.</p> <p>We also believe further analysis of the impact of training and education would be useful in informing what actions would be most impactful and whether in fact training alone can impact/change inherent personal traits. We believe the IAESB could facilitate a</p>

		<p>dialogue or outreach exploring education responses to professional scepticism and seeking to understand the evidence that such training has on its application in practice.</p> <p>We have set out in our response to question G1(c) actions that the IESBA could take to contribute to this area.</p>
37.	RBI	--
38.	RSM	<p>We believe that all bodies, international and national, involved in the financial reporting process ought to consider how they could enhance the understanding and application of Professional Skepticism in the context of their work. The application of Professional Skepticism is critical to the entire financial reporting process.</p>
39.	SRA	--
Public Sector Organizations		
40.	AGC	<p>In our response to question 2, we have outlined the importance of firm/legislative auditor actions to enable and encourage the application of professional skepticism.</p>
41.	AGSA	<p>Firms could develop their own firm specific frameworks/ guidelines relating to professional scepticisms which are linked to their audit methodology.</p> <p>SAICA and IRBA could further enforce this concept in their profession training programmes (competence framework and training model).</p> <p>CPD training courses/ e-learning programmes could be designed by SAICA and IRBA to assist qualifies members/ auditors in understanding the concept where case studies are provide with board examples or scenarios.</p> <p>Firms should be encourage to implement pooling systems where staff is given experience in broad range of clients in order to enhance the exposure and knowledge requirements that are necessary for the appropriate application of professional scepticism.</p> <p>Audit committees should be sensitised to the concept so that they also have an expectation that auditors will be professionally sceptical during the audit. They should question how this concept was applied by the auditors. This would encourage auditors to appropriately apply the concept during the audit.</p> <p>Firms should be required to analyse how the auditors currently document and demonstrate the concept. Root cause analysis should be conducted by each firm to address the unique impediments in each environment relating to the inappropriate application of the concept. Firms should be expected to mitigate these impediments.</p>
42.	GAO	<p>The actions others should take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them include the following:</p> <ul style="list-style-type: none"> • Education: We believe additional action can be taken in initial and continuing education to develop the role of the auditor working in the public interest. • Inspection and peer review: The inspection and peer review processes are important to providing feedback on the application of professional skepticism by the auditor during an audit engagement. The processes also make auditors aware that their judgements may be reviewed and evaluated.

		<ul style="list-style-type: none"> Standard setters: We encourage the IAASB to coordinate with standard setters on the issues discussed in the Invitation to Comment within and among jurisdictions, as these matters are relevant to all jurisdictions.
43.	INTOSAI	<p><u>Education</u> – the education instances needs to address professional skepticism more prominently and to further underline the role of the auditor working in the public interest. The education system will sow the seed for the professional skepticism attitude and the auditors will be better equipped to question whether the firm or audit institutions has the right tone-at-the-top and be encouraged to.</p> <p><u>Inspections</u> – Inspection instances could enhance their actions and inspections on issues relating to professional skepticism more prominently. Though their work is affected by how clear and defined the requirements are in the standards.</p> <p><u>National Standard-Setters</u> – National standard setters plays a major role and there needs to be a consistency in how the concept of professional skepticism is defined. EU has for example stated the importance of using professional skepticism by referring to it in the law.</p> <p><u>Firms (and independent audit institutions)</u> – the management is responsible for creating an environment in which issues related to professional skepticism are addressed and auditors encouraged to speak up if they see any signs of omitting application of professional skepticism. It has to be part of the culture and the leadership needs to acknowledge that this in one of the most important values to be maintained. The transparency reporting could be a great supplement and we believe that it should also include an overall summary form the inspections.</p> <p><u>Other standard setting boards</u> – obviously IESBA and IAESB plays an important role and having them on board for this project would enhance their work on developing further guidance on professional skepticism. There needs to be a consistency between the different standards. We also believe that closer co-operation with standard setters in other jurisdictions might be helpful, as this matter are universal and relevant for all jurisdictions. If we see a universal movement towards the same direction we believe that the effects might be greater.</p>
Preparers of Financial Statements		
44.	PAIB	--
Member Bodies and Other Professional Organizations		
45.	AAT	--
46.	ACCA	<p>We believe audit committees have a very important role in ensuring that the auditor's appropriate exercise of professional scepticism is supported and encouraged, especially in countering management pressure and, to a lesser extent but still importantly, in relation to concerns about time and cost pressure on auditors. Recognition that time is a critical factor in the appropriate application of professional scepticism may help convince preparers and investors that auditors should be given more time, and possibly more resources, to complete their audits rather than insisting upon tight reporting deadlines.</p> <p>As noted above, some audit oversight bodies are sometimes seen to use professional scepticism as a 'catch all' for situations where, with hindsight, the auditor could have undertaken more fieldwork. We believe it would contribute to greater audit quality if audit oversight bodies were more specific about areas where more professional scepticism is needed. Otherwise, there is the risk that auditors may feel pressured to document extensively their disagreement with management's evidence even in low risk areas that do not enhance audit quality.</p>

47.	AIC	<p>To achieve break barriers to proper application of the concept of professional skepticism and to mitigate the deficit, actions that could be taken are:</p> <ul style="list-style-type: none"> – Massive and appropriate dissemination of professional standards, especially those issued by IFAC, and the benefits they generate a correct application of such standards. – Make known the existence and benefits of government rules at country level, especially in the Americas. – Require professional associations, members of IFAC, effective and comprehensive implementation of the DOM. – Require professional associations, IFAC members, issuers of local regulations, strengthen its rules regarding the consideration and actual implementation of the concept of professional skepticism in practice independent audit.
48.	AICPA	<p>We are very pleased that the IAASB recognizes the importance of other parties in achieving an appropriate application of professional skepticism in the financial reporting process. While the responsibility of the IAASB is focused on auditors and to a certain extent firms, any approach to enhancing professional skepticism that omits the role of other key parties—such as management, audit committees, regulators and other standard setters—will be incomplete and less effective. We point the IAASB to the section, “What can other Stakeholders in the Financial Reporting Process do to Enhance Professional Skepticism” in the 2013 GPPC monograph for additional thoughts and recommendations in this regard.</p>
49.	APESB	--
50.	CAANZ	<p>We consider a range of stakeholders have a key role in ensuring that professional skepticism is effectively applied, and appropriately demonstrated, in an audit file. These stakeholders include audit regulators, standard setters, professional bodies and audit firms. However a consistent understanding of the concept is a prerequisite. For example in relation to documentation, ISA 230 states: <i>“The auditor shall document discussions of significant matters with management... including the nature of the significant matter and when and with whom the discussions took place”</i>.</p> <p>We are aware of differences of views as to how this translates in relation to documenting challenges to key judgements. Some audit practitioners point to the spirit of paragraph 8 and A4 to support a view that the decision process and type of challenge should not be recorded. This, they believe is supported by practicalities of how many of the thousands of judgements made on an audit may need to be spelt out. Other practitioners, and some stakeholders, believe it is appropriate to record the substance of discussions on significant or material matters and judgements, including what alternatives were discussed and discounted.</p> <p>It would be valuable if the IAASB could clarify its intention in this type of situation.</p> <p>Resources which may be relevant to the IAASB considerations include:</p> <p>The Australian Securities and Investments Commission (ASIC) guidance⁸ encouraging directors and audit committees to challenge auditor’s judgments with a view to assessing whether professional skepticism has been applied throughout an audit.</p> <p>The Australian Auditing and Assurance Standards Board (AUASB) bulletin⁹ on professional skepticism which advises that ‘audit committees play a significant influencing role and commonly seek to foster professional skepticism in the external audit’. It includes examples of ways in which the audit committee can seek to foster appropriate professional skepticism in the external audit.</p>

⁸ Information sheet 196: [Audit quality - The role of directors and audit committees](#) (March 2014)

⁹ [Professional Skepticism in an Audit of a Financial Report](#) (August 2012)

		<p>The New Zealand Audit and Assurance Standards Board (NZAuASB) explanatory guide¹⁰ promoting application of the Staff Q&A released by the IAASB on Professional Skepticism in an Audit of Financial Statements¹¹.</p> <p>Audit firms have also been instrumental in developing tools to assist with building a common understanding of professional skepticism, in order to enhance the application of professional skepticism in practice.</p> <p>The Professional Skepticism Continuum, outlined in PS1 above, is another useful tool that was designed to assist auditors in understanding the concept of professional skepticism and determining the appropriate level of professional skepticism to apply in different circumstances.</p> <p>As mentioned in PS1 above, we have developed an online training tool to auditors in applying professional skepticism. We drew upon a wide range of research to develop this programme, particularly in the area of decision heuristics. We provide a list of the research drawn upon in developing the online training programme in G3.</p> <p>We are currently finalising a series of “Fraud Story” videos designed to share lessons learnt by experienced audit practitioners with younger members of the profession.</p> <p>As noted in PS2 above, we also commissioned research into how audit firms conceptualise professional skepticism (with a focus on training and education) and worked with a number of firms to explore practical ways in which the application of professional skepticism is enhanced.</p>
51.	CAI	--
52.	CAQ	<p><i>Incentives</i></p> <p>Audit firms, audit committees, and independent audit oversight interact to drive professional skepticism by providing incentives favoring professional skepticism and offsetting potential judgment tendencies and other factors that can weaken professional skepticism. Audit firms’ leadership can promote a firm culture that recognizes and reinforces professional skepticism as being essential – and therefore expected. As noted by IAASB staff, audit firms have opportunities to set expectations regarding the appropriate application of professional skepticism on audit engagements through their systems of quality control.³² For example, a firm can emphasize through performance evaluation, compensation, and promotion processes that appropriate application of professional skepticism on all engagements the firm performs is a requirement that overrides other business objectives and pressures, such as budgeting issues.³³ Firms can use internal monitoring of quality controls and engagement performance to reinforce expectations regarding the appropriate application of skepticism.³⁴</p> <p>Firms also can use training and professional development programs to emphasize in their audit professionals the importance of infusing their work with skepticism.³⁵ Some firms utilize training tools that help engagement teams understand what professional</p>

¹⁰ EG Au7: [References to Practical Guidance on Professional Skepticism in an Audit of Financial Statements](#) (February 2013)

¹¹ https://www.xrb.govt.nz/Site/News/NZAuASB_Communique/NZAuASB_Communique_6_15_Mar_2012.aspx

³² IAASB, *Staff Questions & Answers: Professional Skepticism in an Audit of Financial Statements* (2012), pp. 5-6.

³³ IAASB, ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (2009), par. A5.

³⁴ ISQC 1, par. 48-56.

³⁵ ISQC 1, par. 29 and A25-26.

	<p>skepticism “looks and sounds like” when auditors apply it.³⁶ The CAQ believes that auditors who are trained in and use a disciplined and rigorous decision-making process possess an enhanced ability to more easily avoid judgment traps and biases and effectively and efficiently apply professional skepticism and exercise sound judgment. The CAQ designed a <i>Professional Judgment Resource</i> to provide auditors with an example of a decision-making process intended to facilitate important auditing and accounting judgments in a professionally skeptical manner.³⁷</p> <p>Audit committees can drive auditor professional skepticism through their important audit and financial reporting oversight responsibilities on behalf of investors. The National Association of Corporate Director’s (NACD) Blue Ribbon Commission on The Audit Committee recommends that audit committees assess skepticism when selecting auditors and evaluating their performance.³⁸ The NACD Commission also recommends that audit committees “exercise constructive skepticism as they question management and auditors about the quality of management’s financial reporting and the quality of controls.”³⁹ Given the breadth of the audit committee’s agenda and their limited time, the audit committee chair plays an important role in empowering the audit committee to apply skepticism by working with management, and internal and external auditors in between audit committee meetings to identify issues on which it will be important for the committee to “go deep.”⁴⁰ The audit committee chair can facilitate discussions on accounting and audit matters that hone in on red flag areas. By demonstrating an objective attitude and supporting the auditor’s role in gathering sufficient appropriate audit evidence, the audit committee can drive the external auditor to appropriately apply professional skepticism.</p> <p>Audit committees also can oversee factors related to the audit that can impact auditors’ application of professional skepticism. The U.S. PCAOB and other audit regulators around the world are examining the potential use of audit quality indicators, or AQIs, to assist audit committees in their evaluation of audit quality.⁴¹ The CAQ developed a set of AQIs, as an example of metrics measuring inputs and outputs that may provide insight to audit committees on key matters that may contribute to the quality of the audit.⁴² Some of these AQIs measure or describe factors that may drive or impede professional skepticism. For example, some observers have noted that factors such as financial reporting deadlines combined with staff workloads, as well as time and resource constraints more generally could impede the appropriate application of professional skepticism by auditors.⁴³ Audit committees can use AQIs</p>
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³⁶ For example, see S.M. Glover, D.F. Prawitt, and KPMG, *Elevating Professional Judgment in Accounting and Auditing: The KPMG Professional Judgment Framework* (2011).

³⁷ CAQ, *Professional Judgment Resource* (2014), available at <http://www.thecaq.org/reports-and-publications/professional-judgment-resource>. The professional judgment process discussed in this resource is not the only approach to applying appropriate professional judgment. Other decision-making processes also result in reasonable judgments that are in accordance with the applicable regulatory or professional auditing and accounting standards.

³⁸ NACD, “Honing Skepticism,” (Jan./Feb. 2013), p. 29, available at <https://www.nacdonline.org/files/NACD%20Directorship%20article%20-%20Honing%20Skepticism.pdf>. The Audit Committee Collaboration’s *External Auditor Assessment Tool* poses questions for the audit committee to ask about the auditor’s skepticism. The Tool is available at <http://www.thecaq.org/reports-and-publications/external-auditor-assessment-tool>.

³⁹ NACD, p. 30.

⁴⁰ Id.

⁴¹ Information about the PCAOB’s AQI initiative is available at <http://pcaobus.org/EconomicAndRiskAnalysis/ORAPages/AQI.aspx>. See also, Singapore Accounting and Corporate Regulatory Authority, *Audit Quality Indicators Disclosure Framework* (Oct. 2015), available at https://www.acra.gov.sg/Publications/Guides/Audit_Quality_Indicators_Disclosure_Framework/.

⁴² *Audit Quality Indicators: The Journey and Path Ahead* (Jan. 2016), available at http://www.thecaq.org/docs/default-source/reports-and-publications/auditqualityindicators_journeyandpath2016.pdf?sfvrsn=6.

⁴³ See, for example, PCAOB, *Staff Audit Practice Alert No. 10*, “Maintaining and Applying Professional Skepticism in Audits” (Dec. 4, 2012), pp. 1-2, Citing scheduling and workload demands among the factors that “can impede the appropriate application of professional skepticism and allow unconscious biases to prevail....”

		<p>such as key engagement team members' workloads to maintain awareness of these factors and discuss with the engagement partner whether he or she is keeping them in check. Although AQIs can provide audit committees with additional insight on factors that could affect the appropriate application of professional skepticism on the audit, as data points they cannot adequately communicate whether the presence of those factors drive professional skepticism. Such an understanding requires a two-way dialogue between the auditor and the audit committee.⁴⁴</p> <p>Independent audit regulatory oversight is an important driver of improvements in appropriate application of professional skepticism and audit quality. External inspections by independent audit regulators provide an assessment of the effectiveness of firms' internal quality control systems and, in most cases, they also assess the firm's performance on specific audit engagements. External inspections also underpin the efforts of audit firms to reinforce in their people the critical need for professional skepticism.</p> <p><u>Collaborative efforts between the public company audit profession and others to promote professional skepticism</u></p> <p>Given the importance of the appropriate application of professional skepticism and judgment to audit quality, the public company auditing profession has been proactive in identifying potential enhancements to improve audit quality, including the foundational elements of independence, objectivity, and professional skepticism. To support this effort, the CAQ has worked with members of the financial reporting supply chain to develop tools, research and other materials to support an audit environment that promotes and reinforces skepticism. A description of some of those activities are included below and elsewhere in this letter. The CAQ recommends that the IAASB's Joint Working Group consider these as references as they determine how best to move forward in enhancing skepticism.</p> <ul style="list-style-type: none"> • Anti-Fraud Collaboration (AFC). Through this collaboration, in which the CAQ participates with Financial Executives International (FEI), the National Association of Corporate Directors (NACD) and The Institute of Internal Auditors (The IIA), tools and information are being developed to increase collaboration and communication among members of the "financial reporting supply chain" to help advance efforts to lessen fraud risk.⁴⁵ • The Fraud-Resistant Organization: Tools, traits, and techniques to deter and detect financial reporting fraud. The AFC drew on a wealth of research to provide valuable information about the conditions that might make an organization more susceptible to fraud—and how to mitigate those conditions. The report identifies three central themes that are critical to fraud deterrence and detection—strong tone at the top, skepticism, and robust communications—and explains how financial reporting supply chain participants can incorporate these important traits into their efforts and their organizations.⁴⁶ • Audit Committee Collaboration (ACC). This collaboration is a partnership of leading corporate governance and policy organizations that work together to expand audit committee member access to useful tools and materials with the goal of strengthening audit committee performance and transparency.⁴⁷
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⁴⁴ The CAQ held roundtables around the world with audit committee members to gather their feedback on the CAQ approach to AQIs during which a common theme discussed was the essential need for context, which can only be achieved through dialogue between the auditor and the audit committee, to bring the significance of AQIs to life. As one roundtable participant noted: "I think indicators precipitate important conversations, but those conversations need to be tailored to the individual engagements, voluntary, and very qualitative."

⁴⁵ These resources can be found at <http://antifraudcollaboration.org/> and <http://thecaq.org>.

⁴⁶ Available at <http://www.thecaq.org/reports-and-publications/the-fraud-resistant-organization>.

⁴⁷ These resources can be found at <http://www.auditcommitteecollaboration.org/> and <http://thecaq.org>.

		<ul style="list-style-type: none"> • External Auditor Assessment Tool. The ACC designed this tool to assist audit committees, or their counterparts, in evaluating the external auditor to assess the quality of the audit, or select or recommend the retention of the audit firm. It is available in versions for U.S. audit committees and audit committees worldwide.⁴⁸ • Professional Judgment Resource. This resource is designed to provide auditors with an example of a decision-making process to facilitate important auditing and accounting judgments in a professionally skeptical manner. It outlines an example of a decision-making process grounded in essential actions that include identifying and defining the issue, and reviewing and completing the documentation and rationale for the conclusion. The Resource also identifies several of the more common judgment tendencies and traps that can potentially lead to bias and weaken professional skepticism, and includes illustrative examples of these tendencies, as well as strategies to avoid them.⁴⁹
53.	CIIPA	It is often useful for firms, teams and personnel to better understand their obligations by first recognizing where past audit failures have resulted from the lack of the exercise of proper professional skepticism. Publications of case studies compiled from the various oversight bodies, responsible for quality reviews and/or investigations, would serve as a valuable resource/tool in the training of auditors by being able to demonstrate clearly the type of behaviors that would be expected and the consequences of not applying the appropriate mindset,
54.	CIMA	--
55.	CPAA	<p>In order to gather input from CPA Australia members and other stakeholders on the questions raised in the ITC, CPA Australia conducted a survey.¹ The survey respondents identified the parties who need to take action to improve auditors professional scepticism (ranked in order of number of respondents):</p> <ol style="list-style-type: none"> 1. Firms through training and culture 2. Firms through engagement partner leadership 3. Standard setters 4. Professional bodies in professional programs 5. Regulators 6. Audit Committees 7. Firms through use of technology 8. Universities 9. Those charged with governance <p>Our survey of stakeholders reveals a consistent view that a focus on developing a sceptical mindset as a core competency throughout the education journey is a critical issue for broader audit quality improvement. Actions which we consider the parties identified above may take to promote professional scepticism, subject to its clarification as a concept, include:</p>

⁴⁸ Available at <http://www.thecaq.org/reports-and-publications/external-auditor-assessment-tool>.

⁴⁹ Available at <http://www.thecaq.org/reports-and-publications/professional-judgment-resource>.

¹ CPA Australia conducted an extensive survey on the themes of the ITC and received 33 responses from 8 countries.

		<p><u>Firms</u>: Have a role in attracting confident individuals who are willing to question and challenge, rewarding auditors for exercising professional scepticism and mentoring and training audit staff so that they possess the competence and knowledge to challenge appropriately. Engagement teams need to be involved in both planning and risk assessment and encouraged to apply a questioning mind so that they do not approach their work merely seeking to corroborate the financial information provided.</p> <p><u>Standard setters</u>: As the key international standard setter for auditing, the IAASB needs to further explore the utility of professional scepticism and develop the meaning of the concept, so that how professional scepticism relates to professional competence and judgement is articulated and can be reflected in the standards. IAESB could also investigate how it can emphasise the development of a mindset and exercise of professional scepticism in its standards.</p> <p><u>Professional bodies</u>: Need to ensure that the concept of professional scepticism, once articulated, is incorporated into membership programs and continuing professional development.</p> <p><u>Regulators</u>: continue to seek evidence of the exercise of professional scepticism when conducting audit inspections, however it is important that documentation requirements do not overshadow the genuine application of professional scepticism as redefined and that regulators' expectations with respect to the professional scepticism are clearly understood and consistent with the IAASB.</p> <p><u>Audit Committees & TCWG</u>: The Global Network of Directors' Institutes (GNDI) and National Institutes of Directors could promote professional scepticism in TCWG, particularly non-executive directors and audit committees, in questioning and where appropriate challenging management, which will help to ensure that high quality financial statements are prepared. This attitude will compliment and support the auditors' exercise of professional scepticism.</p> <p><u>Universities</u>: There is a role in clarifying how professional scepticism needs to be addressed in accountants' training and education to ensure that accounting graduates have a sceptical mindset as a part of their core competencies and skills. Emphasis on critical thinking and problem solving is important, in addition to the compliance focused skills, such as how to apply the accounting standards. In the joint roundtable we conducted in Australia, participants cited law graduates as having a more sceptical mindset instilled through their university education.</p>
56.	DnR	Our response focuses at a high level on the topics discussed and the direction that IAASB should take with the ITC. For input on the specific questions in the ITC we refer to the comment letter from FEE.
57.	EFAA	<p>The ITC itself acknowledges that there are local norms and cultures at play and given that the concepts of professional judgement and skepticism can be hard to understand and to articulate in English it may be useful to investigate how these terms are understood and how they manifest themselves in other languages (translation issues?). Moreover, it might be worth trying to identify any common global themes and what aspects are particular to certain geographical areas and certain cultures, if any.</p> <p>We are not aware of any other activities of which the IAASB and the JWG should be made aware albeit, if not already done, the IAASB and the JWG may wish to engage with educational groups such as the European Accounting Association or the American Accounting Association, such that those at the front line of education for our profession can provide insight and support to the ongoing dialogue.</p> <p>Lastly, EFAA is currently in the process of finalizing some research about what accountants do when under pressure and we should be happy to share this with the IAASB and the JWG once completed.</p>
58.	FACPCE	--

59.	FEE	<p>(60) We have identified several actions that others, such as audit committees, regulators, and national auditing standard setters, could take to enhance the application of professional scepticism. For example, audit committees have a strategic role in asking the auditor to explain where and how professional scepticism has been exercised. Audit committees could establish procedures to provide feedback to the external auditor as to whether they have delivered high quality work, which would include observations regarding the application of professional scepticism.</p> <p>(61) As far as the regulator community is concerned, co-operation between standard setters (IAASB, IESBA, and IAESB) and practitioners to establish a joint definition and a common understanding of their expectations as to how the concept of professional scepticism should be applied in practice would be very welcome.</p> <p>(62) With regards to the auditing standard setters, structuring standards in a way that instils a sceptical mind-set, for example urging auditors to consider 'what could go/went wrong', to understand if a quality control finding, i.e. wrong risk assessment, was caused by inappropriate application of professional scepticism, and encourage auditors to challenge management. In relation to the latter point, the IAASB should explicitly state that caution needs to be taken on the auditor's perspective to focus only on those areas where they feel that challenge is the most warranted, i.e. consider the risk-based approach and areas where material misstatements could be identified. Introducing too much of professional scepticism would lead to challenging everything, which will be impractical from an audit point of view.</p>
60.	FSR	--
61.	IBA	--
62.	IBRACON	<p>Please refer to our initial comments in this letter related to "Creating an Optimized Environment for Audit Quality":</p> <p>"Companies can also contribute to audit quality by having a robust corporate governance structure. The adoption of an ethical culture within the organization, as well as a recruitment and training policy for employees, especially those involved directly or indirectly in key internal control and financial reporting processes, is critical. These factors contribute to improving the quality of information prepared by the entity, which directly affects the evaluation of, nature, extent, and timing of audit procedures. The Audit Committee is also a valuable tool for improving interactions between the entity's governing bodies and the auditor, supervising the financial reporting activities, and the work of auditors."</p>
63.	IBR-IRE	These various stakeholders should embed the concept of professional skepticism in their activities. We refer in particular to actions to be undertaken by the IAESB, IESBA and TCWG.
64.	ICAEW	<p>All of those bodies listed in the question should consider what they should do and regard professional scepticism as a key matter for them to consider and cover in what they issue.</p> <p>ICAEW Audit and Assurance Faculty has issued a significant amount of material and guidance in recent times on the application of professional scepticism. This includes our videos on professional scepticism and several webinars, most recently in July of last year. ICAEW recently issued a drama film False Assurance as a training tool for auditors and this highlights some of the key matters connected with professional scepticism.</p>
65.	ICAP	We believe that audit committees and others charged with governance have a key role to play in encouraging and reinforcing scepticism - providing robust oversight over the audit.

		Audit inspection bodies also have a role to play in working with standard setters and practitioners to collectively agree on the underlying nature of issues raised with respect to professional scepticism. We believe the IAESB could facilitate a dialogue or outreach exploring education responses to professional scepticism and seeking to understand the evidence that such training has on its application in practice.
66.	ICAS	<p>There may be a need for more diverse audit teams, including specialists in areas outside of the accounting profession, to introduce a new mind-set within the audit engagement team. This suggestion is considered in our Audit Skills research as referred to in Response G3 above. Also, increasingly complex reporting standards, and a rapidly changing technological environment, require new specialisms for the audit engagement team, for example in data analytics and specialist sector knowledge, for example the financial services sector.</p> <p>Mentoring and training throughout an auditor's career is also important to reinforce the principles and importance of a skeptical mind-set. This might be provided through sharing experiences and examples that illustrate where professional skepticism and professional judgement have been applied and should include the negative experiences, ie where the wrong judgement has been applied, as well as the positive ones.</p> <p>It has been suggested that the need for the application of professional skepticism is emphasised at the early stages of the audit, for example in the planning stages, but this emphasis is less evident during the latter stages of an audit. The underlying reasons for this inconsistency might be due to time and fee pressures as the audit nears its conclusion. The latter stages are often rushed to meet client expectations, or the firm's budgetary requirements, meaning that the auditor applies less time to considering and adopting a skeptical mind-set.</p> <p>There have also been suggestions that the model for the composition of the audit engagement team might also need to be revised to include more senior staff within the engagement team who are sufficiently experienced to be able to apply a professional skeptical attitude and have time to develop and encourage a similar attitude in more junior, newer members of the team.</p>
67.	ICAZ	--
68.	ICPAK	No suggestions.
69.	ICPAU	--
70.	INCPC	--
71.	ISCA	--
72.	KICPA	<p>As mentioned in this consultation, several factors, including tight financial reporting deadlines and heavy staff workloads, serve as an impediment to applying professional skepticism. There are also other factors as well, such as the lack of interests of those charged with governance on auditors' professional judgments and judgmental criteria on the sufficiency of professional skepticism, practices of limiting the application of professional skepticism (checklist audit) due to risks of lawsuits, and maintaining audit contracts and partners' performance compensation system accordingly.</p> <p>To ease the impediments, we believe different measures would be required at the respective stakeholders as follow:</p> <p>(a) those charged with governance challenging auditors' professional judgments (those charged with governance);</p>

		<p>(b) guidance and education materials, including success and failure stories of applying professional skepticism (standard-setters of the respective jurisdictions, PAOs);</p> <p>(c) cultivation of competent auditors and development of IT-based audit data analysis (accounting firms and PAOs); and</p> <p>(d) partner performance compensation system in relation with audit quality (standard-setters of the respective jurisdictions, and accounting firms)</p>
73.	MICPA	--
74.	SAICA	--
75.	SMPC	<p>We are not aware of any other activities which are completed or underway of which the IAASB and Joint Working Group should be aware. However, we suggest that the Joint Working Group also considers the matter of fortitude (i.e. the strength of mind that enables the auditor to deal with matters arising during the course of the audit with courage) identified in the ITC.</p> <p>We consider that the Staff Questions & Answers – <i>Professional Skepticism in an Audit of Financial Statements</i>⁶ is a useful tool in providing guidance. The Board should work with NSS and PAOs to promote this existing guidance and increase the chances that those that need to read it will do so.</p> <p>The recent IAESB Consultation Paper: <i>Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities</i> included particular actions to improve professional competence related to the appropriate exercise of professional skepticism and professional judgment. The SMP Committee's response stated that the development of practical tools, such as short on-line video case studies, may assist member organizations with fewer resources for use in their training materials. In our opinion, both concepts can be difficult to understand, especially for students, and material with examples and guidance on how to effectively exercise professional judgment and skepticism may be useful. We also acknowledged that standard setting boards may not be the appropriate parties to produce such practical tools.</p>
76.	WPK	--
Academics		
77.	AAA	--
78.	AH	<p>I think educators need to be stressing:</p> <ul style="list-style-type: none"> • the impact of management's motivations of the preparation and presentation of the financial statements, • the subjective nature of the financial statements, • the potential usefulness of Critical Thinking in external auditors' professional education and development, and • the potential impact of the financial reporting expectations gap both for users and external auditors.
79.	Glover-Prawitt	--

⁶ <http://www.ifac.org/publications-resources/staff-questions-answers-professional-skepticism-audit-financial-statements>

80.	TRay	--
Individuals and Others		
81.	CBarnard	--
82.	CK	--
83.	DAHughes	Educational standards could be more closely aligned with expectations in the ISAs e.g. Do auditors have an understanding of organizational behavior theory to understand pervasive risk in the corporate culture or management bias in accounting estimates?
84.	JGrant	Audit committees have an important direct role in witnessing and encouraging the amount of scepticism demonstrated by the external auditors. They also have an indirect role in helping ensure that audit fees give scope for proper scepticism to be applied and perhaps in relaxing reporting timetables.
85.	JK	Inspectors are part of the problem. They complain that auditors insist on black letter disclosure, and then complain that auditors should use judgement to eliminate immaterial disclosures that clutter the financial statements and obscure "important disclosures" and then complain when any item of disclosure – no matter how trivial - is overlooked. We had an inspection where the bottom line criticism (that we were required to fix in "our" note disclosure in "our" financial statements) was that certain numbers in a note were not double underlined. And it is not our disclosure and they are not our financial statements. And then regulators say that audit firms should ignore some of their observations while implementing them all.
86.	KKTuraga	--
87.	SDeViney	Continued efforts for convergence of accounting and auditing standards, as fragmentation is a barrier to technical competence, which is a foundation for professional skepticism (paragraph 23). Greater convergence will improve effectiveness of education and training and reduce barriers to consistently understanding, recalling and applying standards. This in turn leads to greater assurance of technical competence. For example, in the US, there are significant, unnecessary differences in financial reporting models for federal government, state and local government, not-for-profit organizations, and private companies. Due to these differences, universities are unable to sufficiently prepare graduates to prepare and audit financial statements for all of these domestic reporting models, much less for international private and international government models or issues in specialized industries as well. This leads not only to risks to technical competence, but also divergence in conventions and applications of professional judgments, which may lead to wider differences in views on how professional skepticism should be applied.