

**Meeting:** IESBA  
**Meeting Location:** Teleconference  
**Meeting Date:** May 4, 2018

## Agenda Item

# 1

### Professional Skepticism

#### Objective of Agenda Item

1. To consider a revised draft of the proposed consultation paper, *Professional Skepticism – Meeting Public Expectations* (CP), with a view to approving it for release.

#### Working Group

2. The Working Group (WG) comprises:
  - Richard Fleck, Chair and IESBA Deputy Chair
  - Trish Mulvaney, IESBA Member
  - Hiro Fukukawa, IESBA Member
  - James Barbour, IESBA Technical Advisor

#### Background

3. In August 2017, the tripartite Joint Professional Skepticism Working Group issued its publication titled [Toward Enhanced Professional Skepticism](#), in which the IESBA committed to “clarify the behavior that is expected of all professional accountants in the public interest.” The publication went on to note that there is a need for further study about whether and, if so, how aspects of the concepts underlying professional skepticism apply more broadly to all professional accountants – not just auditors.
4. In December 2017, the IESBA successfully completed the project to add application material to the Code regarding the exercise of professional judgment by all professional accountants and to explain how compliance with the fundamental principles supports the exercise of professional skepticism by auditors and assurance practitioners. At the same time, the IESBA considered and supported a proposal to develop a consultation paper addressing the longer term professional skepticism initiative with a view to determining what actions, if any, would be warranted from the perspective of the Code to meet public expectations with respect to professional skepticism.
5. At its March 2018 meeting, the IESBA considered a first draft of the CP exploring:
  - (a) The behavioral characteristics inherent in professional skepticism;
  - (b) Whether those behavioral characteristics should be exercised by all professional accountants; and
  - (c) Whether the Code should be further developed as a result.

#### Activities since Last IESBA Discussion

6. Pursuant to the IESBA's commitment to collaborate with the International Auditing and Assurance Standards Board (IAASB) and International Accounting Education Standards Board (IAESB), the Chairs of the Professional Skepticism working groups from the three Boards and the respective staff have met three times via teleconference to discuss drafts of the CP. The IESBA Working Group Chair will report on the outcomes of those discussions during the Board teleconference.
7. The IESBA Working Group has also met via teleconference and liaised via email to discuss drafts of the CP and to finalize the agenda material for this Board teleconference.

### Highlights of March 2018 IESBA Discussion

8. Overall, the Board broadly supported the direction of the draft CP. Among other matters, Board members made a number of comments and suggestions for the Working Group's further consideration in refining the CP, including the following:
  - While consideration should be given to the IAASB Working Group's request that the CP include a question directed at the implications of the options in the CP for the IAASB's auditing and assurance standards, care should be taken to avoid detracting from or otherwise undermining the objective thrust of the CP.
  - Whether the concept of "scalability" should be recognized under the second option presented (which contemplates the development of a definition of professional skepticism that would be appropriate for all types of professional activity).
  - Whether reference should be made to the importance of recognizing that certain tasks not only require different skills but also involve different inherent risks, and that those risks will affect the nature and extent of the actions a professional accountant should take to demonstrate the appropriate behavior.
  - Whether to include, as an additional factor influencing the degree of "professional skepticism" to be exercised, an assessment of the *motivation* of the person providing the information being evaluated.
  - While all the options should be presented, consideration should be given to whether the Board should signal a view on the first or second option.
  - Under the option addressing the development of another term and definition, consideration should be given to including "critical analysis" in the list of possibilities for such a term, as it has the merit of being readily relatable to readers.
  - The concept of professional skepticism in an audit context has developed from historically being about seeking evidence to corroborate management assertions to now being about seeking evidence that would be contradictory in nature. There is a question as to how far this shift should be taken beyond the audit realm into other parts of the accountancy profession.
  - The importance of future-proofing whichever term or definition is used, particularly given that the roles of professional accountants increasingly extend beyond association with financial information to include involvement in relation to the integrity of information across the entity.
  - Whether some further background information could be provided in the CP regarding how the concept of professional skepticism is used in the auditing literature, which would help provide additional context to readers.

- Broadening the list of other definitions and explanations of the concept of professional skepticism in the Appendix beyond the audit and assurance literature.
9. The Board acknowledged that while the task of coordinating its efforts on this initiative with the IAASB and IAESB will be a challenge, it will also present opportunities to strengthen the Code to enable professional accountants to better meet public expectations regarding professional skepticism.
  10. In the light of the feedback received from the Board and from the IAASB and IAESB Working Groups, the IESBA Working Group has made a number of changes to the draft CP in **Agenda Item 1-A**. To facilitate the Board's review, comments have been included in the margins of that agenda item to explain the nature of the more substantive changes.

### Material Presented

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| Agenda Item 1-A | Draft Consultation Paper, <i>Professional Skepticism – Meeting Public Expectations</i> (Mark-up from March 2018 IESBA Version) |
| Agenda Item 1-B | Draft Consultation Paper, <i>Professional Skepticism – Meeting Public Expectations</i> (Clean)                                 |

### Action Requested

11. IESBA members are asked to consider the draft CP in **Agenda Item 1-A** and approve it for release for public comment for a 90-day period.

### Way Forward

12. Subject to Board approval of the CP, the Working Group anticipates its release by around mid-May 2018 to allow sufficient time for it to be widely distributed, in advance of the 2018 roundtables (June 11 – Washington DC, USA; June 15 – Paris, France; and July 12 – Tokyo, Japan).
13. The Working Group anticipates providing:
  - Some limited feedback from the roundtables at the June 2018 IESBA meeting;
  - Preliminary feedback on responses to the CP at the September 2018 IESBA meeting; and
  - A project proposal reflecting the results of the consultation process at the December 2018 IESBA meeting.