

## Professional Skepticism—Consideration of Longer Term Issues

### Introduction

1. This paper explores how the IESBA might progress a longer term initiative on professional skepticism (PS). The Task Force's approach has been to carry out an analysis to identify:
  - (a) The concerns that have given rise to calls for greater exercise of PS;
  - (b) The rationale for addressing those concerns through the Code; and
  - (c) The ways in which those concerns might be addressed in the Code.
2. At this stage, the Task Force is seeking the Board's views on the Task Force's analysis of the issues and how that analysis might be taken forward, rather than the merits of, or drawbacks of any one approach.
3. The Task Force would, therefore, welcome the Board's views on whether:
  - (a) The analysis has identified correctly the concerns that have led stakeholders to call for greater exercise of PS;
  - (b) The Task Force has identified the feasible ways in which those concerns could be addressed; and
  - (c) It supports the development of a Consultation Paper to obtain feedback on the perspectives set out in this issues paper (together with the Board's input at its June meeting).

### Background

4. PS is addressed in the standards of the three standard setting boards (SSBs):
  - (a) It is most prominently addressed in the audit and assurance standards developed by the International Auditing and Assurance Standards Board (IAASB).<sup>1</sup> In the IAASB's International Standards, PS is a defined term and is a concept that is applicable to audit and assurance engagements only.
  - (b) There are limited references to PS in the Code – and those relate only to audit and assurance engagements.<sup>2</sup>
  - (c) The International Accounting Education Standards Board's (IAESB's) International Education Standards (IESs),<sup>3</sup> in particular IES 3, includes PS as a competency area for

---

<sup>1</sup> For example, International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(l), 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."

<sup>2</sup> The Code in particular refers to professional skepticism in its definition of independence. See paragraph 400.5 of the [proposed restructured Code](#).

<sup>3</sup> References to PS in the IAESB's standards include the following:

- Applicable to all PAs, IES 3, *Initial Professional Development – Professional Skills* (2015), paragraph 7(c)(ii) includes as a learning outcome for professional skills the need to "apply professional skepticism through questioning and critically assessing all information."

professional values, ethics and attitudes that all professional accountants (PAs) should have.

*Why is Further Action by the IESBA Warranted Now?*

5. Over the past few years, there have been continuing calls for the SSBs to enhance the way in which existing material in their standards or the Code addresses PS.
  - (a) In responses to the IAASB's December 2015 Invitation to Comment (ITC), [\*Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits\*](#), many commentators called for the enhanced exercise of PS in the context of audit and assurance engagements. In addition, some commentators specifically called for the exercise of PS by all PAs.<sup>4</sup> Others recognizing that the concept of PS applies to all professional accountants in the IAESB's standards (i.e., IESs 2, 3 and 4), suggested the need for the three SSBs to coordinate their activities in order to ensure a common understanding and consistent approach.<sup>5</sup>
  - (b) Separately, some stakeholders, in commenting on recent IESBA exposure drafts, suggested that the IESBA consider how the Code should address PS beyond audit and other assurance engagements. As further discussed in Appendix 2 to this paper, those stakeholders have expressed the view that the concept of PS should be relevant to all PAs – not just PAs who perform audit and other assurance engagements.
  - (c) The suggestion that all PAs should exercise PS has also, independently, been actively promoted by others – in particular, the International Forum of Independent Audit Regulators (IFIAR) – as well as the Public Interest Oversight Board (PIOB), and a number of representatives of the IAASB and IESBA Consultative Advisory Groups (CAGs).<sup>6</sup> Some of those stakeholders are of the view that preparers and others in the

- 
- Applicable to all PAs, IES 4, *Initial Professional Development – Professional Values, Ethics and Attitudes*, paragraph 11(a)(i) includes as a competency area for professional values, ethics and attitudes “professional skepticism and professional judgment.” It also describes related learning outcomes as follows:
    - “Apply a questioning mindset critically to assess financial information and other relevant data; and
    - Identify and evaluate reasonable alternatives to reach well-reasoned conclusions based on all relevant facts and circumstances.”
  - Applicable to audit engagement partners only, IES 8, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements* prescribes learning outcomes for professional skepticism and professional judgment that engagement partners are expected to develop and maintain through continuing professional development.

Separately, reference is made to the term “skepticism” in a July 2015 non-authoritative IAESB publication titled, [\*Framework for International Education Standards for Professional Accountants and Aspiring Professional Accountants\*](#) (the Framework). Paragraph 28 of the Framework notes that “General education helps professional accountants and aspiring professional accountants integrate technical competence, professional skills, and professional values, ethics, and attitudes developed through professional accounting education. It supports the development of decision making skills, judgment, and skepticism.”

<sup>4</sup> CFA, EBA

<sup>5</sup> AE (formerly FEE), CAANZ, GTI, H3C, PAIB, WPK

<sup>6</sup> For example, International Accounting Standards Board, International Corporate Governance Network and Basel Committee on Banking Supervision. See also, the September 2016 minutes of the joint IAASB and IESBA CAGs relating to the topic of PS which is available at: [www.ethicsboard.org/system/files/meetings/files/20160913-IESBA-IAASB-CAG-Final-Minutes-of-September-2016-Joint-Session-Minutes.pdf](http://www.ethicsboard.org/system/files/meetings/files/20160913-IESBA-IAASB-CAG-Final-Minutes-of-September-2016-Joint-Session-Minutes.pdf).

financial reporting supply chain should also be required to exercise PS because “auditors cannot be expected to detect and resolve all problems as part of the audit and at the very end of the process.”<sup>7</sup>

6. It has also been suggested that a skeptical mindset might help address a different concern – namely, the familiarity and self-interest threats that are created by the inherent conflicts of interest caused by auditors being paid by the entities they audit (and thereby building relationships with the management of those entities).<sup>8</sup> Those who hold this view suggest that the application of the concept of PS should be a requirement in the Code.

*Task Force’s Response and Recap of Initiatives Explored to Date*

7. At the outset, the SSBs considered how to respond to the calls for an enhanced application of PS on the basis that PS is a concept that is applied in audit and other assurance engagements. However, the question of whether PS should be exercised more broadly, i.e., by all PAs, became increasingly prominent in the discussions of the PS Working Group (PSWG) and the SSBs’ respective CAGs. This is reflected in the summary of the PSWG’s September 2016 Preliminary Recommendations (see Appendix A – All 3 SSBs, point 1 and IESBA, point 3).
8. In the shorter term, the PSWG recommended that each SSB pursue specific initiatives. In the case of the IESBA (see Appendix A – IESBA, point 1), the PSWG recommended that the IESBA consider how the relationship between PS (as defined in the IAASB’s standards) and the fundamental principles in the Code could be developed. In response, in April 2017, the IESBA approved an Exposure Draft (ED), [\*Proposed Application Material Related to Professional Skepticism and Professional Judgment\*](#). The ED was released in May 2017 and has a comment deadline of July 25, 2017.
9. The Task Force will present a summary of significant matters raised by respondents on the ED and any related revisions to the proposed guidance at the September 2017 IESBA meeting. The Task Force expects to present the final text of proposed application material for the IESBA’s consideration and approval at its December 2017 meeting. The IESBA has approved this accelerated timeframe in order to align the finalization of the proposed text with the planned approval of the restructured Code in December 2017.
10. Given the public interest responsibilities of those organizations that have suggested that the Code should provide for the exercise of PS by all PAs, and given also the IESBA’s remit as the SSB responsible for setting standards governing the behavior of PAs generally, the Task Force believed that the IESBA should address that matter. Therefore, in developing the application material to explain how compliance with the Code’s fundamental principles supports the exercise of PS in the context of audit and other assurance engagements, the IESBA also considered two different proposals designed to respond to the calls for the concept of PS to apply to all PAs – one based on the existing concept and definition of PS; the other based on the concept of a “critical mind-set.”
11. Both proposals encountered considerable opposition, in particular from members of the IAASB. The principal concerns raised were that
  - (a) The exercise of PS by all PAs would dilute or otherwise adversely affect the understanding and application of PS in the context of audit and other assurance

---

<sup>7</sup> See draft minutes of IESBA CAG meeting, March 2017

<sup>8</sup> EBA

engagements. It was argued that this would be to the detriment of the public interest in financial reporting. Those raising this concern focused on:

- The fact that the existing definition of PS is designed for use in audit and other assurance engagements only – referring, as it does, to concepts or terms defined in ISAs such as “misstatement due to error or fraud” and “audit evidence”. Such concepts and terms would not necessarily be appropriate for more general application to all PAs.
  - The risk that different 'levels' of PS might be necessary in order that the application of PS to all PAs would be proportionate.
- (b) Terms such as “critical mind-set” or “critical thinking” were:
- Too close in substance to the concept of PS, potentially confusing PAs and damaging the understanding and application of the concept of PS in the context of audit and other assurance engagements.
  - A subset of objectivity, professional competence and due care, or professional judgment which are already addressed in the Code.
- (c) The requirement to exercise PS might affect the nature and extent of the work effort involved in the provision of professional services other than assurance services by PAs in public practice – for example, the work effort in financial statement compilation or tax return preparation might increase.
- (d) Inadequate research had been undertaken to assess the implications of the extension of the concept of PS to all PAs and, therefore, there might be significant unintended consequences from such an initiative.
12. Some representatives on the joint CAGs of the IAASB and IESBA recognized the risks that had been identified and urged caution against unintended consequences.
13. Given stakeholder exhortations for the SSBs to coordinate their initiatives, the IESBA did not consider it appropriate to pursue either of the two proposals noted in paragraph 9 above and agreed to consider a longer term initiative through which general support could be developed.

## **The Task Force's Approach and Further Consideration of Remaining Issues**

### *Approach*

14. Against this background and in response to the concerns raised about extending the existing concept of PS to all PAs, the Task Force has taken a step back, to revisit and document its understanding of the issues that are being raised in relation to the application of PS. In doing so, the Task Force considered the following questions:
- (a) What are the deficiencies in the performance of PAs generally that have been identified by those advocating the exercise of greater PS?
  - (b) In relation to PAs generally, why is there a public interest in addressing those deficiencies?
  - (c) What are the behavioral attributes necessary to address deficiencies in the performance of PAs and are they adequately addressed in the Code?
  - (d) Is there merit in developing material to promote specifically the exercise of PS by all PAs?

- (e) Are there factors (other than the adequacy of the Code) affecting the behavior of PAs that should be considered?
  - (f) If the desired changes in PA behavior cannot be achieved solely by further developing attributes or concepts (including PS) addressed in the Code, what other approach(es) should be considered to address stakeholder concerns?
  - (g) Should any material developed in response to the concerns raised by stakeholders be directed to all or only certain categories of PAs?
15. The Task Force recognizes that, before a definitive Consultation Paper can be developed, it will be necessary to analyze the feedback on the May 2017 ED.
16. To facilitate the development of a Consultation Paper, the Task Force has developed some preliminary reactions to these “questions” and some ideas as to how the challenges that it has identified might be addressed. The Task Force wishes to obtain the Board's views on whether it has identified:
- (a) The concerns that have led stakeholders to call for greater exercise of PS; and
  - (b) The feasible ways in which those concerns could be addressed.

*Consideration of Issues*

Question A: What are the deficiencies in the performance of PAs generally that have been identified by those advocating the exercise of greater PS?

17. It has been suggested that the term 'PS' is used to describe the behavior needed to address a number of different behavioral deficiencies. For example, International Organization of Securities Commissions (IOSCO) noted in its response to the IAASB's ITC, 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 PS or that may contribute to a lower perceived level of PS and negatively affect audit quality.” The Task Force has therefore tried to identify the behavioral concerns that have given rise to the calls for the exercise of greater PS.
18. From the responses to the IAASB's ITC, correspondence from IOSCO and subsequent discussions with the PIOB, it appears to the Task Force that the calls for the exercise of greater PS are stimulated by concern that PAs do not:
- (a) Approach information with an appropriate mindset. There is an expectation of a mindset that is 'open minded', 'proactive' and 'questioning';
  - (b) Evaluate information effectively. There is an expectation for information to be assessed using all relevant sources of evidence and reflecting the degree of risk or judgment involved;
  - (c) Adequately address actual or potential bias or other impediments to the exercise of professional judgment; and
  - (d) Take into account the way users would expect information to be assessed.

Appendix 2 summarizes some of the views that have been expressed by IOSCO and the PIOB.

19. Through the proposed consultation process, the Task Force wishes to establish whether it has comprehensively identified the deficiencies in the performance of PAs generally that stakeholders consider should be addressed.

Question B: In relation to PAs generally, why is there a public interest in addressing those deficiencies?

20. The Code (paragraph 100.1) provides that it is a PA's responsibility to "act in the public interest."
21. In the Task Force's view, it is in the public interest to address the actual or perceived deficiencies in the performance of PAs because:
- (a) Good decisions are dependent on the integrity and completeness of the information (of whatever nature) being relied upon. It is, therefore, important that that information should be of sufficient reliability that stakeholders can use it with confidence. This is particularly true in a world where there is an ever increasing amount of information available.
  - (b) PAs, whether in business or in public practice, use their expertise, training and experience to:
    - Create or compile information;
    - Oversee the reporting and presentation of information;
    - Analyze information;
    - Prepare information for special purposes; and/or
    - Confirm, give assurance or approve information.
  - (c) Where a PA is associated with such information, there is an expectation, expressed simply, that a PA will not be associated with information that the PA has reason to believe is or will not be fit for the intended purpose. This expectation is based on the professional competence expected of a PA, combined with the ethical values associated with membership of a relevant professional body.

Furthermore, given the important role of the accounting profession in society, especially in government and business, it is in the public interest that public confidence in the work of PAs and the information with which they are associated is maintained.

22. The proposed consultation process would provide an opportunity to obtain stakeholders' input on these views.

Question C: What are the behavioral attributes necessary to address deficiencies in the performance of PAs and are they adequately addressed in the Code?

23. The Task Force then considered the attributes that PAs would need in order to meet the public interest expectation articulated above.
24. The Task Force's present assessment is that the necessary attributes are addressed by the Code, in particular, through the fundamental principles – which all PAs are expected to observe. However, in view of the concerns raised by commentators (as noted under Question A above), there appears to be a need to supplement the discussion of these attributes in the Code.
25. For example, in relation to integrity, the proposed restructured Code (paragraph R111.2) states that a PA:

"shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

- (a) Contains a materially false or misleading statement;
  - (b) Contains statements or information provided recklessly; or
  - (c) Omits or obscures required information where such omission or obscurity would be misleading."
26. However, from IOSCO's comments and its recommendation that "PAIBs should be required to demonstrate enhanced levels of attentiveness and sensitivity to the integrity of information with which they are associated",<sup>9</sup> it would appear that some stakeholders are concerned that PAs do not give adequate attention to this requirement. That could be because the requirement uses terms like 'material', 'recklessly', 'required' and 'misleading', and PAs construe those terms in a way that establishes a higher threshold than the public expects. Subject to feedback received through the proposed consultation process, consideration might be given to supplementing the Code to ensure that PAs comply with existing requirements in a way that is consistent with the public interest.
27. Stakeholders also expect PAs to be able to identify and address their own "unconscious biases" and other impediments, such as pressure, that are likely to affect a PA's understanding and evaluation of information. Although matters like "bias" and "pressure" are referred to in the Code, they are only addressed briefly. This is an area where the Code could be further developed.
28. In addition to establishing the areas where it may be appropriate to supplement the Code to address particular issues that stakeholders have identified, the Task Force wishes to explore through the consultation process whether supplementing the Code in this way would have sufficient impact to change behavior and so achieve the outcome necessary to meet the public interest.

Question D: Is there merit in developing material to promote specifically the exercise of PS by all PAs?

29. A number of stakeholders have suggested that the IESBA should consider introducing a new requirement, supported with appropriate application material, requiring all PAs to exercise PS.
30. Currently, the Task Force is skeptical that the introduction of a requirement to exercise PS (as defined in IAASB standards) would achieve the desired objective. This is because:
- (a) In circumstances where the perceived deficiencies equate to behavioral expectations already addressed in the Code (namely a failure to apply "rigor" or to comply with the fundamental principles of "integrity," "objectivity" and "professional competence and due care"), a new requirement to exercise PS would be duplicative of the existing (or supplemented) material already in the Code.
  - (b) The concept of PS, as described in IAASB standards, is relevant to audit and assurance engagements only and therefore not designed for application by PAs generally.
  - (c) It would be necessary to introduce the concept of "scalability" to ensure that the level of PS would be appropriate having regard to the nature of the work being undertaken and the role and level of expertise of the PA involved.

---

<sup>9</sup> See Appendix 2

31. For these reasons, the development of a different definition of the term PS would be likely to focus on concepts like “questioning mind,” or “critical thinking.” However, as some IESBA members have observed previously, the concepts of “questioning mind” and “critical thinking” appear to already be addressed in the requirements and application material relating to the fundamental principles of “integrity” and “objectivity.”
32. The Task Force would welcome the Board's views on whether, at this stage, the Task Force should pursue (a) the suggestion by some stakeholders that the Code should include an additional, new requirement for all PAs to exercise PS as currently defined in IAASB standards or (b) developing a different definition or nomenclature that captures the relevant concepts of professional skepticism applicable to all PAs.

Question E: Are there factors (other than the adequacy of the Code) affecting the behavior of PAs that should be considered?

33. It is important that the IESBA's consideration of whether there are improvements that could be made to the Code should not take place in isolation, i.e. without regard to the wider environment.
34. In this context, the Task Force has identified a number of possible areas to explore:
  - (a) Are the requirements in the Code given the appropriate level of prominence in policies and methodologies of firms that provide professional services?
  - (b) Do PAs lack a proper understanding of their responsibilities and the expectations of PAs?
  - (c) Is more training needed for individual PAs and firms to understand how to properly apply the provisions in the Code in the manner that the IESBA intends?
  - (d) Do IFAC member bodies, educators and employers give sufficient support for and/or emphasis on compliance with the Code?
35. If the consultation reveals that these factors do affect the behavior of PAs generally, the Task Force will consider, in conjunction with other SSBs, how these could be addressed.

Question F: If the desired changes in PA behavior cannot be achieved solely by further developing attributes or concepts (including, PS) addressed in the Code, what other approach(es) should be considered to address stakeholder concerns?

37. The matters listed in paragraph 34 suggest that there may be a need for a clearer articulation of the responsibilities and expectations of PAs.
38. In this context, the Task Force has discussed the merits of introducing an “overarching objective” or “Purpose Statement” for the Code to give an overall context to the work of all PAs. Such an approach would focus PAs on the expected outcome of their work – an outcome that serves the public interest. Adherence to the provisions of the Code could then be framed as a means by which this public interest outcome is most effectively achieved, rather than adherence to the Code as merely a required “compliance” activity in and of itself.
39. By way of example, a potential “overarching objective” or “Purpose Statement” for the Code might be a statement such as: “The public interest is served when information with which the PA is associated is of sufficient reliability that stakeholders can have confidence in using it for their decision-making purposes.”



40. In considering the overarching objective/ purpose statement approach, the Task Force also considered:
- (a) Whether such an overarching objective/purpose statement might be supported with application material to explain:
    - The rationale for the Code's emphasis on compliance with the fundamental principles, independence (where applicable), and the application of the conceptual framework; and
    - How to identify and deal with unconscious biases, pressure and other impediments to exercising PS and complying with the fundamental principles.
  - (b) Whether the Code would be better observed if it, or a related document, included provisions to guide firms and companies on how compliance with the requirements of Code can be promoted.

Question G: Should any material developed in response to the concerns raised by stakeholders be directed to all or only certain categories of PAs?

41. In the course of discussions with stakeholders, a question has been raised as to whether such supplemental or additional material as may be developed should be directed to all PAs or only to senior PAs with responsibilities that relate directly to the public interest (see Question B above).
42. The Task Force recognizes the importance of this question and the merits of the underlying rationale for it. The Task Force would observe that:
- (a) Any proposals that involve a development of material to supplement existing provisions in the Code – such as the fundamental principles – would, logically, apply to all PAs; and
  - (b) Any new material – such as the introduction of a requirement to apply PS (however described) – could be directed to specific categories of PA (as occurred in NOCLAR where greater responsibilities apply to “senior PAIBs”).
43. The Task Force will consider this issue as its thinking develops and ensure that any Consultation Paper seeks stakeholder views on the application of any proposals to all or some PAs.

**The Task Force's Proposed Way Forward**

44. The Task Force has considered how to obtain input on and support for any proposals that the IESBA might develop from all stakeholders – including those calling for an extension of the concept of PS to all PA, as well as those who have expressed concerns about potential unintended consequences with such an approach.
45. With the benefit of the Board's views, the Task Force proposes to:
- (a) Develop a Consultation Paper for approval by the Board (timeline to be elaborated in due course);
  - (b) Following consideration of the responses to the Consultation Paper, explore the merit of round table discussions with stakeholders; and
  - (c) Subject to the feedback from stakeholders, develop material for consideration by the Board with a view to exposure when approved.

46. In the course of this process, the Task Force proposes to continue to work closely with the other SSBs to ensure that their views are fully taken into account.

**Matters for IESBA Consideration**

The Task Force is seeking the Board's views on:

- (a) Whether the analysis in this paper has identified correctly the concerns that have led stakeholders to call for greater exercise of PS by all PAs;
- (b) Whether the Task Force has identified the feasible ways in which those concerns might be addressed, namely by:
  - Clarifying existing provisions in the Code (such as those relating to integrity, bias etc.) and promote their appropriate implementation.
  - Developing an “overarching objective” or “Purpose Statement” for the Code to emphasize and clarify that the outcome of work of PAs work is expected to serve the public interest.
  - Explaining the responsibilities and expectations of PAs in a document that does not form part of the Code.
- (c) Whether there are other suggestions that the Task Force should investigate?
- (d) The Task Force's proposal to develop a Consultation Paper for further consideration by the Board and publication (subject to Board approval).

## Appendix 1

### PSWG Preliminary Recommendations – As of September 2016

The following is an extract of [Agenda Item 7-A](#) to the September 2016 IESBA meeting materials and includes the PSWG's preliminary recommendations, the basis for which is discussed in detail in that paper.

Board	Relevant Action
All 3 SSBs	<ol style="list-style-type: none"> <li>Using the PSWG as the mechanism to do so, jointly explore:                         <ol style="list-style-type: none"> <li>In the longer term, whether it may be appropriate to extend the concept of PS beyond audit, review and assurance engagements (e.g., beyond how it is currently defined in the ISAs).</li> <li>In the longer term, whether a common description explaining the interrelationships among key concepts in the SSB's standards and the IESBA Code should be developed and, if so, how this description could be articulated.</li> <li>The potential standard-setting implications of (a) and (b), including providing views about whether this might result in changes to the SSBs' standards and the IESBA Code or whether a common description of PS could be promulgated in another way.</li> <li>In the longer term, whether a fundamental change to the concept of PS is needed.</li> </ol> </li> <li>Continue to engage the PSWG to act as a central point for discussion of these and other issues as and when needed in relation to the discussions of the individual SSBs on matters that require coordination.</li> </ol>
IESBA	<ol style="list-style-type: none"> <li>Continue discussions on the relationship between PS and the FPs in the IESBA Code (as well as independence) and consider how this relationship should be addressed within the IESBA Code (e.g., in upcoming exposure drafts or with a longer term view).</li> <li>Explicitly address impediments to PS where possible in current and potential projects (e.g., safeguards, fees, etc.)</li> <li>Provide input to the PSWG's consideration of the applicability of the concept of PS beyond audit, review and assurance engagements and the common description of PS, and consider whether further changes are needed to the IESBA Code.</li> </ol>
IAASB	<ol style="list-style-type: none"> <li>Strengthen requirements and guidance in key standards currently under revision to emphasize the importance of the application of PS and set forth expectations about how PS is expected to be applied (e.g., accounting estimates / ISA 540,<sup>10</sup></li> </ol>

<sup>10</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

Board	Relevant Action
	<p>risk assessment / ISA 315 (Revised), quality control (firm level) / ISQC 1,<sup>11</sup> quality control (engagement level) / ISA 220,<sup>12</sup> group audits / ISA 600<sup>13</sup>).</p> <ol style="list-style-type: none"> <li>2. Explicitly address impediments to PS where possible in current projects (e.g., in relation to quality control using the quality management approach (QMA)).</li> <li>3. Commence information gathering and initial IAASB discussions on the topics of evidence and documentation, focusing on elaborating what the phrase “a critical assessment of evidence” in the definition of PS entails (e.g., by seeking to enhance ISA 500<sup>14</sup> and other ISAs) and reconsidering requirements related to the auditor’s documentation in accordance with ISA 230,<sup>15</sup> particularly in relation to significant professional judgments made in planning and performing the audit.</li> <li>4. Provide feedback on the potential implications of the IESBA’s efforts to articulate the relationship between PS and the FPs in the IESBA Code (as well as independence), in particular how this might affect both assurance engagements and other services.</li> <li>5. Provide input to the PSWG’s consideration of the applicability of the concept of PS beyond audit, review and assurance engagements and the common description of PS, and consider whether further changes are needed to ISA 200 or other IAASB International Standards.</li> </ol>
IAESB	<ol style="list-style-type: none"> <li>1. In view of the analysis of the drivers and impediments to PS determine what future actions might be most useful to further develop professional competence (e.g., an emphasis on training, education and mentoring).</li> <li>2. Provide feedback on the potential implications of the IESBA’s efforts to articulate the relationship between PS and the FPs in the IESBA Code (as well as independence).</li> <li>3. Provide input to the PSWG’s consideration of the applicability of the concept of PS beyond audit, review and assurance engagements and the common description of PS, and consider whether further changes are needed to the IESs.</li> </ol>

<sup>11</sup> ISQC 1, *Quality Control for Firms That Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

<sup>12</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>13</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>14</sup> ISA 500, *Audit Evidence*

<sup>15</sup> ISA 230, *Audit Documentation*

## Appendix 2

### **Calls for Extending the Applicability of PS to All PAs**

1. As discussed in the Background section, some stakeholders have suggested that the IESBA consider how the Code should address PS beyond audit and other assurance engagements. Those stakeholders have expressed the view that the concept of PS should be relevant to all PAs – not just PAs who perform audit and other assurance engagements. For example:
  - In its April 2015 comment letter to the IESBA, the IOSCO called on the IESBA to emphasize in the Code the need for professional accountants in business (PAIBs) to exercise an adequate level of PS throughout the process of preparing, presenting and/or filing information. IOSCO noted that:
    - PAIBs' work typically involves accumulating, distilling, and interpreting information from others, namely colleagues who work at the source (e.g., in operating departments) of an entity's transactions.
    - Given the increased level of complexity of business transactions and financial reporting and the increasing use of estimates and management judgments, PAIBs should be required to demonstrate enhanced levels of attentiveness and sensitivity to the integrity of information with which they are associated.
  - Participants in a 2014 PIOB Public Interest Workshop suggested 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." They further noted that "when accountants (practitioners, non-practitioners, accountants in business) do not display proper professional skepticism it is recognized as a barrier to effective performance."
  - Representatives of the PIOB at the March 2017 IESBA and IESBA CAG meetings expressed the view that the concept of PS is relevant to all PAs and that it is in the public interest that guidance on PS be made available to all PS.