

Professional Skepticism—Issues and Task Force Proposals

Background

1. At its March 2017 meeting, the IESBA approved a project to develop application material to explain how compliance with the fundamental principles in the Code supports the exercise of professional skepticism (PS) as defined in the standards of the International Auditing and Assurance Standards Board (IAASB). The IESBA also considered the proposed application material and broadly supported it, subject to some refinements. In addition, the IESBA considered proposed application material to emphasize the importance of professional accountants (PAs) obtaining an understanding of the facts and circumstances known to them when exercising professional judgment, in the context of applying the conceptual framework. The IESBA also supported this proposal, subject to some refinements.
2. Since the March 2017 IESBA meeting, the Task Force has revised the proposed application material to take into account the suggested refinements from the IESBA and circulated them to the International Accounting Education Standards Board (IAESB) and on the advice of the IAASB, the IAASB representatives of the tripartite PS Working Group (PSWG)¹ for comment on a “fatal flaw” basis.
3. The purpose of this paper is to summarize the key revisions made since the last drafts considered by the IESBA during its March 2017 meeting. Those revisions include the refinements made by IESBA members on Day 3 of the March 2017 IESBA meeting; and the feedback from the IAESB and IAASB representatives of the PSWG.

Feedback from March 2017 IESBA Meeting

4. In addition to taking on the refinements made by some IESBA members, the Task Force considered whether revisions could be made to better demonstrate that the relationship between the fundamental principles and PS is a two-way one. Specifically, the Task Force considered whether the second sentence in paragraph 120.13 A1 that reads “... compliance with the fundamental principles reinforces a professional accountant’s ability to exercise PS ...” could be revised to also convey some IESBA members’ view that PS *enable* compliance with the fundamental principles.
5. While the Task Force does not disagree with those IESBA members’ view, it notes that the proposed application material uses the IAASB’s definition of PS which is applicable to audit and assurance engagements only. The Task Force notes from its interactions with the PSWG and the IAASB’s feedback on earlier drafts of the proposed text, that a statement to suggest that PS *enables* compliance with the fundamental principles might have the unintended consequence of implying that PS is applicable to all PAs. Accordingly, the Task Force has retained its approach, but has added a few words in paragraph 120.5 A1 to clarify that the description of the linkage is in the context of an audit of financial statements.
6. The Task Force agreed to further streamline the proposed application material and agrees with the IESBA that the examples included in the proposed application material in 120.13 A1 should be “clear and obvious.” In this regard and based on further reflection on the feedback from the IESBA, the

¹ The PSWG comprises representatives of IESBA, the IAASB and the IAESB. It was formed in June 2015 to consider how to improve application of PS.

Task Force has agreed to delete the example relating to the fundamental principle of professional behavior. Also, the example relating to professional competence and due care has been substantively revised.

Feedback from IAESB Members

7. Generally, the IAESB members did not identify any “fatal flaws” with the proposed application material, but made the following comments that the Task Force has determined to be outside the scope of its current remit. IAESB members observed that:
 - Existing terms (e.g., professional competence) in the Code and the IAESB’s standards are described in a different manner. The Task Force believes that aligning the description of terms across the SSBS’ suites of standards is important. However, the scope of this project is limited to describing the linkage between the fundamental principles in the Code to PS as defined in the IAASB’s standards. Thus, a consideration of aligning the descriptions other terms is outside of the current project scope.
 - IES 3² specifies as a learning outcome “apply PS through questioning and critically assessing all information” for all aspiring PAs. The Task Force notes and acknowledges the broader application of PS in the context of the IAESB’s standards. However, as discussed at the March IESBA meeting, exploration of issues relating to changing the description of PS or extending the applicability of PS in the context of the Code would need to be dealt with as part of a longer term project.

Feedback from IAASB Representatives of PSWG

Description of Linkage

8. The IAASB representatives of the PSWG provided drafting and editorial suggestions aimed at clarifying the specific examples, in particular those related to integrity and objectivity in paragraph 120.13 A1, in a manner that they believe better align with the IAASB’s standards.
9. The Task Force has considered all the comments and suggestions made by the IAASB representatives of the PSWG and made revisions where appropriate. **Agenda Item 1-B** include those revisions. The Task Force did not accept drafting suggestions that departed from the new format and drafting convention for the proposed restructured Code. For example, the Task Force did not take on a suggestion to replace the term “professional accountant” in paragraph 120.13 A1 with the word “auditor.”

Clarification of Enhanced Conceptual Framework

10. The IAASB representatives questioned the meaning of, and the expected work effort associated with the phrase “...obtaining an understanding of facts and circumstances...” in paragraph 120.5 A1. The Task Force is of the view that the professional accountant’s understanding of the facts and circumstance should be sufficient for the professional accountant to be in a position to identify, evaluate and address threats to compliance with the fundamental principles. The Task Force has revised the wording in paragraph 120.5 A1 to reflect this view. The Task Force also believes that its

² International Education Standard 3, *Initial Professional Development – Professional Skills (2015)*, paragraph 7

revised wording is more closely aligned to the language in the overarching requirement in paragraph R120.3.

11. The revised wording in **Agenda Item 1-D** also incorporates some editorial suggestions that the IAASB representatives of the PSWG provided to clarify the proposed application material.

Exposure Period

12. Although the comment period for IESBA exposure drafts are ordinarily 90 days, the IESBA's due process allows for a shorter comment period in certain circumstances. Those circumstances include, where in the public interest, there is a need to conclude on a matter more quickly and when the exposure draft is relatively simple or short. On this basis, the Task Force is recommending a comment period of 75 days in order to align the planned project timetable and proposed effective date for its proposals with the proposed effective dates for the Structure of the Code project. Subject to the IESBA's approval, the Task Force anticipates the release of an exposure draft by mid-May 2017.

Matters for IESBA Consideration

1. IESBA members are asked whether they support the two sets of revised application material in **Agenda Items 1-B** and **1-D**, and, if so, approve them for exposure.
2. IESBA members are asked for views about the Task Force's recommended exposure period.