

Agenda Item 1-A (Updated)

Professional Skepticism – Meeting Public Expectations Draft Consultation Paper

(Mark-up from Version Presented at March 2018 IESBA Meeting)

I. Introduction

1. The purpose of this Consultation Paper is to seek input on the IESBA's consideration of the longer-term professional skepticism issues, including those summarized in the August 2017 Joint Professional Skepticism Working Group (PSWG) publication, [Toward Enhanced Professional Skepticism](#).¹ The Consultation Paper is organized into three sections which explore:
 - (a) The behavioral characteristics ~~inherent~~² comprised in professional skepticism;
 - (b) Whether ~~those behavioral characteristics should be applied by all professional accountants,~~ should apply these behavioral characteristics; and
 - (c) Whether ~~refinements to the Code should be further developed,~~ and/or other actions outside of the Code ~~should be undertaken,~~ to address ~~behavioral characteristics~~behaviors associated with the ~~application~~exercise of appropriate professional skepticism.

Through this consultation, the IESBA also aims to support and reinforce the effective ~~application~~exercise of professional skepticism by professional accountants in audit and other assurance engagements ~~and, in,~~ In doing so, the IESBA aims to develop an approach that will increase confidence in the financial or other information with which ~~they~~professional accountants are associated.

II. Background

2. Over the past few years, there have been continuing calls for the Standard Setting Boards³ to enhance the way in which existing material in their standards addresses professional skepticism:
 - (a) In response 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](#),⁴ many commentators called for a more consistent ~~application~~exercise of appropriate professional skepticism by professional accountants in the context of audit and other assurance engagements. In addition, a few commentators specifically called for the

¹ This publication was the result of the collaboration and consultation among the International Auditing and Assurance Standards Board (IAASB), IESBA, and International Accounting Education Standards Board (IAESB). The responses to this consultation paper will be shared with the IAASB and IAESB.

² In this paper, the term "behavioral characteristics" is used to refer to behavioral concepts. The term "behavior" is used when the characteristics are being applied.

³ The International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), and International Accounting Education Standards Board (IAESB). The IAASB, IESBA and IAESB

⁴ The ITC (pages 11-15) provides further background regarding how the IAASB's standards address professional skepticism, factors influencing professional skepticism (with reference to relevant concepts in the standards of the IESBA and IAESB), the roles of individual auditors, firms and others, and related stakeholder calls for action.

~~application~~exercise of “professional skepticism” by all professional accountants.⁵ Others, recognizing that the concept of professional skepticism applies to all professional accountants in the IAESB’s standards (i.e., International Education Standards (IESs) 2, 3 and 4), have suggested the need for the three Standard Setting Boards to coordinate their activities to ~~effect~~develop a holistic approach to the topic of professional skepticism across the various standards promulgated by each of the ~~respective boards~~board.⁶

- (b) Separately, in responding to IESBA Exposure Drafts (EDs),⁷ ~~some~~a stakeholders⁸ suggested that the IESBA consider how the Code should address professional skepticism beyond audit and other assurance engagements. ~~These~~This stakeholders expressed the view that the concept of “professional skepticism” should be relevant to all professional accountants – not just professional accountants who perform audit and other assurance engagements.
- (c) The view that all professional accountants should ~~apply~~exercise “professional skepticism” has also been expressed independently of the most recent IESBA EDs and actively promoted by others – in particular, the International Forum of Independent Audit Regulators (IFIAR) as well as the Public Interest Oversight Board (PIOB), the IFAC PAIB Committee, and a number of representatives of the IAASB and IESBA Consultative Advisory Groups (CAGs).⁹ Some of these stakeholders are of the view that preparers and others in the financial reporting supply chain should also be required to ~~apply~~exercise “professional skepticism” because “auditors cannot be expected to detect and resolve all problems as part of the audit and at the very end of the process.”¹⁰ Appendix 21 sets out the approach to professional skepticism taken by a number of other international and national standard setters and other organizations.

- 3. In considering the detailed comments of stakeholders summarized above, it appears to the IESBA that professional skepticism ~~appears to be~~is a term used to encompass a variety of behavioral characteristics. Additionally, it appears that professional skepticism may mean something different to different people - particularly in relation to how it should apply to professional accountants who practice in different areas (e.g., audits, non-audit services, preparing financial statements, ~~management oversight,~~ and governance). Other than in the audit and assurance context, there is no definition of professional skepticism.¹¹ It is a difficult concept to define in a way that is easy to understand and generally accepted by both the profession and other stakeholders.

⁵ CFA Institute, European Banking Authority (EBA)

⁶ Accountancy Europe (AE), Chartered Accountants Australia and New Zealand (CAANZ), Grant Thornton International, Haut Conseil du Commissariat aux Comptes (H3C), IFAC Professional Accountants in Business (PAIB) Committee, Wirtschaftsprüferkammer (WPK)

⁷ IESBA Exposure Drafts: [Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client](#), and [Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles](#).

⁸ The International Organization of Securities Commissions (IOSCO)

⁹ For example, the 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 Professional Skepticism, available at-on the IESBA’s [website](#).

¹⁰ See minutes of [IESBA CAG meeting, March 2017](#).

¹¹ Whilst the IAESB’s standards refer to professional skepticism in a broad context, and not just in relation to audit or assurance, the definition used in the IESs is the same as that used by the IAASB in its standards.

4. In the International Code of Ethics for Professional Accountants— (including International Independence Standards) (“the ~~revised and restructured~~ “Code”),¹² there are limited references to professional skepticism, and they only exist in the context of independence standards applicable to audit and other assurance engagements. There is no reference to, nor general requirement that all professional accountants apply exercise professional skepticism.

III. Invitation to Comment

The Behavioral Characteristics Comprised in Professional Skepticism

5. Public and private organizations depend on professional accountants to perform a wide range of services, often in connection with information generated by and about the organization. The IESBA believes that, ~~amongst a number of factors~~¹³, the public expects information with which a professional accountant is associated to have been prepared with the benefit of the professional accountant’s skills and experience so that ~~that~~ the information can be relied upon for its intended use.
6. Additionally, there appear to be public expectations as to the manner in which such skills and experience are applied. A concept used by some to describe the expected manner or approach to be applied by professional accountants is “with professional skepticism.”
7. To obtain a clearer understanding of expectations expressed by some in relation to the concept of “professional skepticism” in this more general context, a detailed review of the various consultation responses described in paragraph 4~~2~~ above was carried out by the IESBA’s Professional Skepticism Working Group to determine the particular behaviors and actions expected of professional accountants generally. From this detailed review, it appears that these commentators believe that professional accountants should:
- Obtain and understand information relevant for making reliable judgments based on facts and circumstances known to them.
 - Make informed challenges of views developed by others.
 - Be sensitive to the integrity of information, including the source of the information and the appropriateness of its presentation.
 - Withhold judgment pending thoughtful consideration of all known and relevant available information.
 - Be alert to potential bias or other impediments to the proper application exercise of professional judgment.
 - Have the ability and willingness to stand their ground when facing pressure to do otherwise.¹⁴
8. Having reflected on the analysis summarized in paragraph 7 above, the IESBA believes that professional skepticism has in many respects become a “catch all” term that is used inconsistently to capture the behaviors and actions that the public expects professional accountants to demonstrate when performing professional activities.

Commented [JM1]: To elaborate on the concept of “information integrity,” which is not intended to be the concept that is sometimes referred to in an IT audit context.

¹² All references to the “Code” in this consultation paper are to the revised and restructured Code, which the IESBA released in April 2018.

¹³ Other factors include honesty and professional competence.

¹⁴ See ICAS, “Moral Courage,” Power of One series, for a discussion of the concept of “moral courage.”

9. Because of the disparate ways in which the term professional skepticism is used, the IESBA has sought to articulate the behavioral ~~expectation~~expected by the public ~~has for~~of all professional accountants ~~that have~~and which has led to the calls for all professional accountants to ~~apply~~exercise “professional skepticism.” Such expectations also ~~serves~~as a means to examine more specifically root causes giving rise to the concerns that professional accountants, especially auditors, do not ~~apply~~exercise appropriate professional skepticism.

~~10.~~ It appears to the IESBA that professional accountants are expected to:

10. Whether it is appropriate to expect all professional accountants to apply all or any of the characteristics and actions identified in paragraph 7 depends upon the nature and context of the work being undertaken and the particular role or position of the professional accountant. Against this background, the IESBA believes that the appropriate articulation of the behavior expected of professional accountants is that they should:

- (a) Approach professional activities with an impartial and diligent mindset; and
- (b) Apply ~~this~~that mindset ~~and~~, together with relevant professional expertise, to ~~evaluate~~the evaluation of information with which they are associated.

11. This articulation of the behavior expected of all professional accountants would apply to information of any nature with which the professional accountant is associated, be it financial or non-financial. As a result, in addition to promoting integrity throughout the financial reporting supply chain, it will address the responsibility of professional accountants when preparing and presenting data of a non-financial nature (as is increasingly the case). The behavior expected of all professional accountants applies equally to those professional accountants undertaking audit and other assurance engagements, and is compatible with and supportive of the exercise of professional skepticism as defined in the IAASB’s auditing and assurance standards.

~~11-12.~~ Commentators acknowledge, and numerous research papers and topical articles indicate, that an important aspect of ~~applying~~exercising appropriate professional skepticism in an audit context is the professional accountant’s ability to identify and respond to bias, preconceptions, pressure and other impediments. Such impediments also impact the ability of a professional accountant to adopt and maintain an impartial and diligent mindset in carrying out other types of professional activities.

Should the Behavior Expressed in Paragraph 10 be Exercised by all Professional Accountants Apply These Behavioral Characteristics?

~~12-13.~~ The IESBA is of the view that because the public’s expectation of the profession rarely takes into account the different roles that an individual professional accountant may be undertaking, the public believes that all professional accountants should have the mindset summarized in paragraph 10 above, and apply that mindset in the course of their professional activities.

~~13-14.~~ Whilst the IESBA believes there is an impartial and diligent mindset expectation of the profession at large and all professional accountants that comprise it, it also recognizes that the nature and extent of the actions to be taken by the professional accountant in order to demonstrate behavior appropriate to the particular circumstances will depend upon a range of factors, including:

- The role and experience of the professional accountant. For example, the expectation of a senior financial officer in a corporation will be different to that of a junior member of the accounting function.

Commented [JM2]: In as much as paragraph 7 describes the behavioral characteristics in PS, this paragraph was created to describe generically the behavior expected.

Commented [JM3]: This paragraph is created
- to make the link between PS and financial and non-financial information,
- to confirm that PS applies to all and
- to confirm that the proposed approach is compatible with the ISA definition of PS.

Commented [JM4]: Change made to focus more on the behavior (paragraph 10) rather than the behavioral characteristics (paragraph 7).

- The type of work ~~and the degree of risk~~ involved and, ~~therefore~~, the level of expertise expected. For example, the assessment of complex accounting issues relating to financial instruments ~~requires different skills to the~~ carries with it a higher level of risk compared with that involved in monitoring of the value and recoverability of ~~debtors~~ accounts receivable.
- The potential significance or implications of the decisions to be made on the basis of the work undertaken. For example, ~~judgments that could determine whether financial covenants have been complied with will~~ the determination of provisions for outstanding litigation matters generally requires the application ~~exercise~~ of greater professional judgment than the calculation of gains or losses on investments.
- The competence and/or motivation of the person providing the information being evaluated.

Commented [JM5]: To consider "risk" in work activities rather than focusing only on technical expertise.

Commented [JM6]: Upon reflection, the WG realized that assessing compliance with covenants is more of an objective exercise, and the point it made better with an example that is more subjective.

Commented [JM7]: Added to acknowledge the need to assess competence and potential bias of the person providing information in applying PS in a particular situation.

These considerations suggest the need to introduce scalability when considering professional skepticism.

Should Refinements/Changes to the Code and/or Other Actions Outside of the Code be Undertaken to Address Behavioral Characteristics Associated with "Professional Skepticism?"

14.15. Some commentators have observed that the ~~behavioral characteristics highlighted~~ behavior articulated in this Paper are ~~paragraph 10 above is~~ already implicitly embedded in the Code's fundamental principles (see Appendix 42), principally in Integrity, Objectivity and Professional Competence and Due Care (see Table 4 below). They therefore believe there is no need for additional requirements in the Code.

Table 4

Expected Behavior identified by Commentators	Behavioral characteristics expected of all Professional Accountants	Related Fundamental Principles
Obtain and understand information relevant for making reliable judgments based on facts and circumstances known to the professional accountant.	Impartial and diligent mindset and professional expertise when undertaking professional activities, including applying this mindset and relevant professional expertise to evaluate information with which they are associated.	Professional Competence and Due Care
Make informed challenges of views developed by others.	Impartial and diligent mindset	Professional Competence and Due Care

Commented [JM8]: Table deleted because the point is made clearly in the text and the Table seemed to generate confusion.

Expected Behavior identified by Commentators	Behavioral characteristics expected of all Professional Accountants	Related Fundamental Principles
Be sensitive to the integrity of information.	Impartial and diligent mindset and professional expertise when undertaking professional activities, including applying this mindset and relevant professional expertise to evaluate information with which they are associated.	Integrity Professional Competence and Due Care
Withhold judgment pending thoughtful consideration of all relevant information.	Impartial and diligent mindset and professional expertise when undertaking professional activities, including applying this mindset and relevant professional expertise to evaluate information with which they are associated.	Professional Competence and Due Care
Be alert to potential bias or other impediments to the proper application of professional judgment.	Applies professional expertise and identifies and effectively responds to bias, preconceptions and pressure	Objectivity
Ability and willingness to stand their ground when facing pressure to do otherwise.	Impartial and diligent mindset	Integrity

15.16. The IESBA recognizes that ~~these behavioral characteristics~~ while the behaviors expected of all professional accountants may correlate to or be components of one or more of the Code's existing fundamental principles. ~~Notwithstanding this correlation,~~ there continue to be concerns expressed publicly about the way Pprofessional Sskepticism is applied/exercised in the course of audit and other assurance engagements. Furthermore, as described in paragraphs 5-4112 above, there is a public expectation that information with which a professional accountant is associated can be relied upon for its intended use, as well as the continuing calls for all professional accountants to approach their work "with professional skepticism". ~~These.~~ The existence of these "expectation gaps" suggests/suggests that either:

- (a) The Code does not contain adequate material in support of the fundamental principles or to establish the behavioral characteristics of a professional accountant; or

- (b) Professional accountants do not properly understand and adhere to the Code; or
- (c) Some combination of (a) and (b).

Against this background, the IESBA ~~has been urged to enhance~~ believes it should consider enhancing the Code specifically to promote the effective application/exercise of appropriate “professional skepticism” by all Professional Accountants.

~~16-17. In response, the~~The IESBA has identified a number of different ways in which it might amend or supplement the Code to clarify the behavioral characteristics expected of all Professional Accountants ~~summarized articulated in paragraph 10 above and in so doing,~~ address stakeholder concerns related to the application/exercise of appropriate “professional skepticism.” These options are not mutually exclusive. Elements of some ~~or all~~ of them in combination might be deemed appropriate to address public expectation gaps.

Professional Skepticism as eCurrently dDefined in aAuditing sStandards

17-18. _____ One option might be to require all Professional Accountants to ~~apply exercise~~ “Professional Skepticism” in the manner defined in the International Standards on Auditing, namely:

“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 the evidence.”

The IAASB’s standards reflect the IAASB’s belief that professional skepticism is a key concept or attribute when a practitioner is critically assessing evidence for the purpose of achieving a level of assurance and issuing an assurance conclusion. Accordingly, the concept of professional skepticism is explicit when a practitioner is performing an audit (or reasonable assurance) engagement or where the practitioner is performing a review (or limited assurance) engagement. The IAASB does not include professional skepticism requirements for non-assurance engagements such as a compilation or agreed upon procedures engagement.

Commented [JM9]: This passage added at the behest of IAASB PS WG.

This approach under this option would have the advantage of using an existing definition and terminology that is well-established.

However, ~~whilst~~Potential disadvantages of this approach include the following:

- Whilst the definition focuses on “*an attitude that includes a questioning mind,*” it does so in an audit and assurance context, emphasizing the assurance concepts of ‘*misstatement*’ and ‘*evidence*’, which are not appropriate for general application by all professional accountants. This concern could be addressed if an alternative definition were developed for that term to reflect the behavior described in paragraph 10 above – an option described in paragraph 19 below.
- ~~Furthermore, some commentators contend that if~~The use of the same term ~~were~~and definition in the Code to be used in a different context ~~it describe the behavior expected of all professional accountants~~ might dilute or otherwise adversely affect the understanding and application of Professional Skepticism in the context of audit and other assurance engagements, and therefore be detrimental to the public interest.
- ~~Another concern is that the~~The requirement to ~~apply exercise~~ Professional Skepticism, as defined, might affect the nature and extent of the work effort involved in the provision of

Commented [JM10]: This sentence is a compromise that the WG crafted to accommodate a suggestion from the IAASB PS WG.

professional services other than assurance services by professional accountants in public practice ~~for example, the work effort required in financial statement compilation or tax return preparation might increase.~~

Commented [JM11]: Deleted because this example was considered to be “public practice” focused.

Professional Skepticism Re-defined

~~18-19.~~ A second option might be to require all professional accountants to ~~apply~~exercise “~~professional skepticism~~”, (i.e., ~~retaining the term “professional skepticism”~~), but to develop a different definition that would be appropriate for all types of professional activity.

If this approach were adopted, the definition of “professional skepticism” would encapsulate the behavioral characteristics described in paragraph 10 above, ~~namely such as:~~

“Approaching professional activities with an impartial and diligent mindset and applying ~~that~~this mindset and relevant professional expertise to the evaluation of information with which they are associated.”

For the reasons discussed in paragraph 14, the related application material in the Code would need to address the different expectations of professional accountants depending upon the roles expected of them, their seniority and their experience – factors that form part of the concept of “scalability.”

Commented [JM12]: Introducing scalability to recognize not every PA can apply PS at the same degree – depends on roles and levels of experience.

This approach, ~~while is~~ attractive because it would use the term most generally used to describe behaviors associated with professional skepticism, ~~risks creating.~~ However, the IESBA is concerned that it could create confusion through the use of one term to refer to two different types of behaviors and expectations, namely:

- The behavior required of all professional accountants by the Code; and
- In the case of professional accountants involved in audit or other assurance engagements, the behavior required by the IAASB standards.

That confusion could be exacerbated by the need to introduce application material to address the concept of scalability.

The IAASB will determine the consequences for their standards if this option is pursued, particularly how it will affect the critical assessment of audit evidence, to avoid reducing the robustness of the IAASB’s current definition.

Commented [JM13]: Wording added in coordination with IAASB PS WG.

Developing Another Term and Definition

~~19-20.~~ If it is not considered appropriate to use the term professional skepticism for all Professional Accountants, ~~another~~A third option might be to develop a different term to use with the definition in ~~(ii)~~ of behavior expected of all professional accountants described in paragraph 19, above.

In search of alternative terms and formulations, the IESBA has considered literature reviews, survey results and other definitions. Appendix ~~21~~ sets out ~~D~~definitions and ~~E~~explanations identified in the course of that review, ~~which have been developed for assurance and other contexts.~~

Because the mindset or attitude of a ~~P~~professional ~~A~~ccountant is a common thread in discussions of the behavior often described as “professional skepticism”, ~~examples of a term (other than “professional skepticism”) that could be used for a new definition based on (ii) above (paragraph 19)~~

might include 'critical thinking', 'critical analysis' or 'diligent mindset' (or some combination of such terms).¹⁵

Adding Application Material to the Code

~~20-21.~~ A fourth option might be to conclude that no new requirements or concepts are required in the Code but rather to develop additional application material to expand upon the concepts underlying the existing fundamental principles. In doing so, the Code would express more explicitly (and with examples) the behavior expected of all ~~P~~professional ~~A~~ccountants. The behavioral characteristics required might include critical thinking, challenging mindset, and moral courage.¹⁶

The objective would be to address the fact that, although implicitly embedded in the Code, the key behavioral characteristics that underpin "professional skepticism" in the broader context do not currently have sufficient profile, or the focus necessary, to promote the behavior sought.

Adding Requirements and/or Application Material to ~~a~~Address Bias, ~~Preconception,~~ Pressure and Other Impediments.

~~21-22.~~ Bias, ~~preconception,~~ and pressure are dealt with in different parts of the Code but the discussion of these impediments is limited. The IESBA believes that it should consider developing additional material to increase awareness of these and other impediments, and how they should be addressed.

This material would be independent of any new definition and/or application material to address the behavior described in paragraph 10.

Further Considerations

~~22-23.~~ Irrespective of how the IESBA might ~~refine/revise~~ the Code or otherwise undertake activities to address the issues discussed in this Consultation Paper, the change in behavior sought by commentators will only be achieved if those initiatives are supported by appropriate education and training developments. The IESBA is committed to coordinating its work with the IAASB and IAESB as it progresses this initiative.

~~23-24.~~ The IESBA is discussing with the IAESB the Education and training are that may be required to support the behavior contemplated by this Consultation Paper, including, in particular, to enhance professional skills in such areas as:

- ~~u~~Understanding and being alert to personal traits and motivations, including biases, and other impediments to the exercise of professional judgment.
- ~~e~~Enhanced business acumen,
- ~~i~~Interviewing/questioning,

¹⁵ Some have suggested that the term 'critical thinking' should be avoided as that concept is an element of the definition of professional scepticism in the International Standards on Auditing. They therefore support the use of the term 'diligent' as it carries with it the concept of thoroughness. Others support the use of the term 'analysis' as it is an easier term to understand and evidence.

¹⁶ See ICAS, "Moral Courage," Power of One series

Commented [JM14]: Deleted because this term does not appear in the Code.

- ~~i~~Interrogating data.
- ~~e~~Evaluating the information gained from observation, ~~and~~.
- ~~p~~Problem solving.

In this regard, the IAESB published in April 2018 a paper on skepticism in its "Personal Perspectives Series"¹⁷ based on a review of literature on various aspects of professional skepticism.

IV. Responding to this Consultation paper

24. ~~[Placeholder with information about planned June-July 2018 global roundtables in Europe, North America and Asia.]~~

Commented [JM15]: Moved to section V.

25. Respondents ~~will be~~ are asked to ~~respond to~~ for views on the following questions: ~~that follow.~~ The options in paragraphs 18-22 are not mutually exclusive and we invite your views on any combination of options that you believe would be an appropriate approach.

Question 1 Paragraph 5, ~~_~~ Do you agree with the premise that a key factor affecting public trust in the profession is whether information with which a ~~Professional Accountant~~ professional accountant is associated can be relied upon for its intended use?

Question 2 Paragraph 10, ~~_~~ Do you agree with the ~~summary of behavioral characteristics~~ behavior associated with public expectations of professional accountants? Are there behavioral characteristics that should be included or excluded from the summary?

Question 3 Paragraphs ~~12-13~~ and ~~13-14~~, ~~_~~ Do you agree that the mindset and ~~behavioral characteristics~~ behavior described in paragraph 10 should be expected of all professional accountants? If not, why not?

Question 4 Paragraph ~~15-16~~, ~~_~~ Do you believe the fundamental principles ~~included in the existing Code~~ and related application material are sufficient to support the behaviors associated with the ~~application~~ exercise of appropriate "professional skepticism?"

Question 5 Paragraph ~~16 (i)~~ ~~18~~, ~~_~~ Do you believe professional skepticism, as defined in International Standards on Auditing, would be the appropriate term to use?

Question 6 Paragraph ~~16 (ii)~~ ~~19~~, ~~_~~

(a) Do you believe "that the Code should retain/use the term "professional skepticism", as re-defined" but develop a new definition?

¹⁷ "All Professional Accountants Need to Include Skepticism in their Mindset," IAESB Personal Perspectives Series, by Keith Bowman and W. Morley Lemon.

(b) ~~If so, do you support a new definition along the lines set out in paragraph 19-16 (ii), would be the appropriate term to use?~~

(c) ~~If you do not support a definition along the lines described could you please provide an alternative definition.~~

Question 7 Paragraph 46 ~~(iii), 20,~~ –

(a) ~~Would you support an alternative term to 'professional skepticism' - such as 'critical thinking', 'critical analysis' or 'diligent mindset'?~~

~~(a)(b) If not, what other term(s), if any, would you suggest which focusses on the mindset and behaviors to be applied/exercised by all Pprofessional Accountants?~~

Question 8 Paragraph 46 ~~(iv), 21,~~ – ~~Should the Code include IESBA develop additional application or other material, whether in the Code or otherwise, to highlight the importance of applying/exercising the behavioral characteristics/behavior and relevant professional skills as described? If yes, please suggest the type of application material that in your view would be the most meaningful to enhance the understanding of these behavioral characteristics and professional skills.~~

Question 9 ~~What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21?~~¹⁸

Question 10 Paragraph 46 ~~(v), 22,~~ – ~~Should the Code include application or other material to increase awareness of biases, preconceptions, pressure and other impediments to the approaching professional activities with an impartial and diligent mindset and applying/exercising appropriate professional skepticism in the circumstances-? If yes, please suggest the type of materials that in your view would be the most meaningful to help professional accountants understand how bias, preconception, and pressure and other impediments might influence their work.~~

¹⁸ This question has been included at the request of IAASB.

Appendix 1

Definitions and Explanations from Other Standard Setters and Organizations
Drawn from a Review of Definitions and Survey Results

<u>Organization</u>	<u>Approach to Professional Skepticism</u>
<u>AICPA</u>	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 the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence. (AU 230.07)
<u>CPA Canada</u>	In CPA Canada’s publication “The Chartered Professional Accountant Competency Map,” the CPA Enabling Competencies include: 1.2.3 Maintains objectivity, independence in mental attitude, and professional skepticism. Click here to link to the competency map.
<u>IAASB</u>	Given its remit, the IAASB defines the term focusing on those who practice in audit and assurance. For example, the International Standards on Auditing (ISA 200) define professional skepticism as follows: <i>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 evidence.</i>
<u>IAESB</u>	IES 4, “Initial Professional Development – Professional Values, Ethics, and Attitudes,” identifies “professional skepticism and professional judgment” as a competency area at the intermediate level of proficiency. In doing so, it uses the IAASB definition of professional skepticism, acknowledges that the IAASB definition is limited to audit, assurance and related service engagements, and goes on to state that within IES 4, Professional Skepticism (and professional judgment) are to be interpreted as applying to the broader context of a role as a professional accountant. IES 4 goes on to acknowledge that achieving learning objectives in Professional Skepticism and PJ may extend across several different courses of subjects, none of which may be devoted solely to that competency area.

<u>Organization</u>	<u>Approach to Professional Skepticism</u>
<u>ICAEW</u>	<p>On its website in a section titled "How to Become a Chartered Accountant" the ICAEW describes <i>Ethics and Professional Skepticism</i> as follows: <u>Ethics is integrated throughout the ACA qualification to develop students' capabilities. It's about identifying ethical dilemmas, understanding the implications and behaving appropriately. So as an ICAEW Chartered Accountant, working in a world of scrutiny and accountability, you'll always know how to make the right decisions and justify them.</u></p> <p>The webpage goes on to describe professional skepticism as "an attitude that includes a questioning mind and being watchful of conditions that may indicate possible error or fraud."</p>
<u>ICAEW</u> <u>AUASB – Australia</u> <u>CA ANZ</u>	<p>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 <u>evidence.</u></p>
<u>IMA</u>	<p>Strategic Finance magazine, June 2, 2017, "Improving Critical Thinking Through <u>Data Analysis</u>"</p> <p>"Critical thinking is a matter of thinking that employs curiosity, creativity, skepticism, <u>analysis, and logic where:</u></p> <ul style="list-style-type: none"> <u>Curiosity means wanting to learn.</u> <u>Creativity means viewing information from multiple perspectives.</u> <u>Skepticism means maintaining a "trust but verify" mindset.</u> <u>Analysis means systematically examining and evaluating evidence, and</u> <u>Logic means reaching well founded conclusions.</u>
<u>PCAOB</u>	<p>In its auditing standards (AS 1015), the PCAOB states the following:</p> <p><u>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.</u></p>
<u>SAICA</u>	<p>In a competency framework for entry into the profession, SAICA defines Pervasive Qualities and Skills, which describes skills in three categories: <u>ethical behavior and professionalism, personal attributes, and professional skills.</u> While the framework does not use the term "professional skepticism" many of the skills included in the three categories include the skills this paper describes as professional skepticism. <u>Click here for a link to the competency framework.</u></p>

<u>Organization</u>	<u>Approach to Professional Skepticism</u>
<u>UK FRC</u>	<p>The UK FRC has adopted the IAASB’s definition of Professional Skepticism in its ISAs (UK and Ireland). The UK FRC also published a paper in 2012 on Professional Skepticism and its relation to audit quality. The paper examines the Greek roots of skepticism, discussing doubt and how doubt stimulates challenge and inquiry, and withholds judgment about the truth. It compares “professional skepticism” with scientific skepticism, noting that scientific skepticism is typically not subject to external influences, human error, and fraud – as are audits. The paper concludes by suggesting that an appropriately skeptical auditor:</p> <ol style="list-style-type: none"> 1. Applies a critical appraisal of management’s assertions, actively looking for risks of material misstatement. 2. Develops a high degree of knowledge of the entity’s business and its environment. 3. Makes informed challenge of consensus views and considers the possible incidence of low probability high impact events. 4. Considers if there is evidence to contradict management’s assertions. 5. Has strong skills in making evidence-based judgments. 6. Approaches and documents audit judgments and review processes in a manner that facilitates challenge, and demonstrates the rigor of the challenge. 7. Documents not only the auditor’s conclusions, but also the rationale for the conclusions.

Appendix 2

The Fundamental Principles

Extract from the Code

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

110.1 A1 There are five fundamental principles of ethics for professional accountants:

- (a) Integrity – to be straightforward and honest in all professional and business relationships.
- (b) Objectivity – not to compromise professional or business judgments because of bias, conflict of interest or undue influence of others.
- (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (ii) Act diligently and in accordance with applicable technical and professional standards.
- (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
- (e) Professional Behavior – to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

Commented [JM16]: Initially we included a highly summarized discussion of the fundamental principles. It was suggested that we include the full section from the Code.

R110.2 A professional accountant shall comply with each of the fundamental principles.

110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organization.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity implies fair dealing and truthfulness.

R111.2 A professional accountant 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.

111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.

R111.3 When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

SUBSECTION 112 – OBJECTIVITY

R112.1 A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.

R112.2 A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

R113.1 A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

(a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

(b) Act diligently and in accordance with applicable technical and professional standards.

113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

R113.2 In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

R113.3 Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

SUBSECTION 114 – CONFIDENTIALITY

R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:

(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;

(b) Maintain confidentiality of information within the firm or employing organization;

(c) Maintain confidentiality of information disclosed by a prospective client or employing organization;

- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorized by the client or the employing organization; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of a professional accountant in legal proceedings; or
 - (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - o Unsubstantiated facts.

- Incomplete information.
- Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

R114.2 A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

R115.1 A professional accountant shall comply with the principle of professional behavior, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

R115.2 When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- (a)** Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
- (b)** Disparaging references or unsubstantiated comparisons to the work of others.

115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

Appendix 2

Definitions and Explanations Drawn from a Review of Definitions and Survey Results

Organization	Approach to Professional Skepticism
AICPA	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 the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.
IAASB	Given its remit, the IAASB defines the term focusing on those who practice in audit and assurance. For example, the International Standards on Auditing define professional skepticism as follows: <i>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 evidence.</i>
IAESB	IES 4, “Initial Professional Development — Professional Values, Ethics, and Attitudes,” identifies “professional skepticism and professional judgment” as a competency area at the intermediate level of proficiency. In doing so, it uses the IAASB definition of professional skepticism, acknowledges that the IAASB definition is limited to audit, assurance and related service engagements, and goes on to state that within IES 4, Professional Skepticism (and professional judgment) are to be interpreted as applying to the broader context of a role as a Professional Accountant. IES 4 goes on to acknowledge that achieving learning objectives in Professional Skepticism and PJ may extend across several different courses of subjects, none of which may be devoted solely to that competency area.
ICAEW ACCA Global OAG Canada AUASB – Australia CA ANZ	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 evidence.

Organization	Approach to Professional Skepticism
<p>IMA</p>	<p><u>Strategic Finance</u> magazine, June 2, 2017, "Improving Critical Thinking Through Data Analysis"</p> <p>"Critical thinking is a matter of thinking that employs curiosity, creativity, skepticism, analysis, and logic where:</p> <ul style="list-style-type: none"> Curiosity means wanting to learn, Creativity means viewing information from multiple perspectives, Skepticism means maintaining a "trust but verify" mindset, Analysis means systematically examining and evaluating evidence, and Logic means reaching well founded conclusions.
<p>PCAOB</p>	<p>In its auditing standards, the PCAOB states the following:</p> <p><i>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.</i></p>
<p>UK FRC</p>	<p>The UK FRC has adopted the IAASB's definition of Professional Skepticism in its ISAs (UK and Ireland). The UK FRC also published a paper in 2012 on Professional Skepticism and its relation to audit quality. The paper examines the Greek roots of skepticism, discussing doubt and how doubt stimulates challenge and inquiry, and withholds judgment about the truth. It compares Professional Skepticism with scientific skepticism, noting that scientific skepticism is typically not subject to external influences, human error, and fraud — as are audits. The paper concludes by suggesting that an appropriately skeptical auditor:</p> <ol style="list-style-type: none"> 1. Applies a critical appraisal of management's assertions, actively looking for risks of material misstatement. 2. Develops a high degree of knowledge of the entity's business and its environment. 3. Makes informed challenge of consensus views and considers the possible incidence of low probability high impact events. 4. Considers if there is evidence to contradict management's assertions. 5. Has strong skills in making evidence-based judgments. 6. Approaches and documents audit judgments and review processes in a manner that facilitates challenge, and demonstrates the rigor of the challenge. 7. Documents not only the auditor's conclusions, but also the rationale for the conclusions.