

Meeting: IESBA CAG

Meeting Location: New York, NY

Meeting Date: September 10, 2018

Agenda Item

E

Professional Skepticism

Objectives of Agenda Item

1. To:
 - (a) Report back on the discussions at the March 2018 CAG meeting;
 - (b) Obtain Representatives' views on highlights of the response¹ to the Consultation Paper: [Professional Skepticism – Meeting Public Expectations and feedback from the global roundtables, and the Working Group's preliminary recommendations for the way forward](#); and
 - (c) Obtain Representatives' views on a project proposal.

Working Group

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

Status and Timeline

3. Considering input from the CAG and IESBA at their respective March 2018 meetings, the WG made a number of enhancements to the consultation paper, which was approved by the IESBA during a teleconference in April 2018. The consultation paper was released in mid-May for a 90-day comment period, ending on August 15, 2018.
4. In June and July, the WG hosted three roundtables in Washington DC, Paris, and Tokyo. A fourth roundtable was held in Melbourne, Australia, at the joint request of the Australian Accounting Professional & Ethical Standards Board (APESB) and the New Zealand External Reporting Board (XRB), which jointly hosted and provided logistical support for the event. . The IESBA CAG Chair attended the Washington DC and Paris roundtables as an observer. In addition, Representatives of a number of CAG member organizations also participated in some of the roundtables. Full details of all four roundtables, including agendas, discussion material and lists of participants, are available on the IESBA [website](#).
5. At the IESBA's September 2018 meeting, the WG will report on highlights of the feedback from the

¹ All comments letters from respondents to the consultation paper can be accessed [here](#).

roundtables and significant comments received from respondents to the consultation paper, and the WG's recommendations. The WG will present a project proposal to the Board for its consideration and approval.

6. Subject to approval of the project proposal, the WG anticipates a timeline through September 2019 to the release of an exposure draft of proposed changes to the Code.

Report Back on March 2018 CAG Discussion

7. Extracts from the draft minutes of the March 2018 CAG meeting,² and an indication of how the WG or the IESBA has responded to CAG Representatives' comments are included below.

Matters Raised	WG/IESBA Response
GLOBAL ROUNDTABLES	
Ms. McGeachy-Colby questioned how the WG planned to cover the Africa and South American regions in the roundtable process.	Mr. Siong responded that the roundtables are by invitation and representatives from those regions will be invited to attend. Mr. Fleck noted that these regions will also be able to share their views through the consultation paper process. ³
PROPOSED CONSULTATION PAPER	
Mr. Van der Ende noted that in the IAASB's standards, PS applies only to assurance engagements. He wondered whether Option 1 in the paper was intended to extend that concept of PS to all professional accountants (PAs).	Mr. Fleck explained that this was indeed an option in the paper, though the WG expected that option to be discounted. He noted that the WG felt strongly that all options must be included in the paper to enable stakeholders to provide feedback on them.
Mr. Baumann cautioned that if PS is expanded to apply to all PAs, it could dilute the meaning of the term for auditors.	Mr. Fleck responded that the WG did not expect the term to be used as defined in the International Standards on Auditing (ISAs), and applying a new term for auditors could cause confusion – these issues were all being considered by the WG.
Mr. James acknowledged the WG's intention to present all the options in an unbiased way but noted from the discussion that it seemed to lean towards one or two particular options. He questioned why the WG did not then signal its preference for particular options by laying out the	Mr. Fleck responded that the consultation paper did present such an analysis but that the WG would consider whether it was sufficiently clearly articulated. He emphasized the importance of presenting the options in a neutral way and not pre-empting stakeholder views.

² The draft minutes will be approved at the September 2018 IESBA CAG meeting.

³ When the global roundtables were discussed with the IESBA CAG, only three roundtables were planned: North America, Europe and Asia. A fourth roundtable was added in Melbourne, Australia on request of, and with hosting and logistical support from, the APESB and NZ XRB. While this additional roundtable does not include the regions that Ms. McGeachy-Colby referred to, it demonstrates IESBA's flexibility in balancing the constraints of its budget with the need for qualitative global input.

Matters Raised	WG/IESBA Response
pros and cons of each one so that stakeholders have all the analysis presented in a transparent way.	
Mr. Dalkin felt that if the WG was leaning more towards the third option, the WG should elaborate on it and proceed from there. He also shared his view that PS is fundamentally different for someone working in management compared with someone working as an auditor. If an auditor applied PS as someone in management, there could be more audit failures.	Mr. Fleck replied that the WG would reflect on the balance of the options and whether there would be merit in giving a steer towards Option 3. He also mentioned that the views of the IAASB would be sought regarding the behavioral characteristics as these apply to auditors. Nevertheless, he emphasized the importance of not prejudging the outcome of the consultation.
Ms. Robert was of the view that if Option 3 was the way to go, there should be consideration of linking the new term to the FPs. She did not believe that this new term should be developed in isolation from the FPs. She suggested including a question in the paper on exploring such a linkage.	Mr. Fleck responded that there would indeed be a need to consider the linkage issue if the way forward was to develop a new term. However, the question was whether to develop such a term to encapsulate the behavioral characteristics or to develop application material.
Mr. linuma suggested that stakeholders be asked to prioritize the options presented as they are not necessarily mutually exclusive.	Point not accepted. The WG felt that respondents should be given the flexibility to comment on any and all the options presented, including expressing clear preferences for, or rejecting, one or more of them. Accordingly, the WG did not support asking respondents to prioritize the options.
Dr. Manabat was of the view that it was not a matter of “one size fits all” as what may apply to a PA performing an assurance engagement may be different for a PA in business (PAIB). Accordingly, she felt that it is not so much a matter of identifying one term as opposed to focusing on the operative concepts of a diligent mindset and an impartial mindset.	Mr. Fleck acknowledged the challenge of identifying a single term that would fit all. He therefore felt that Option 4 could be one way to go. However, the WG would reflect on this further.
Mr. James offered his view that expanding the term to all PAs would water it down for auditors. He agreed with Mr. Dalkin that PS is not the same for those in management as for auditors. He added that there may be behavioral characteristics that are at a similar level as PS, but that it is important that whatever solution is developed does not become a lowest common denominator for	Mr. Fleck responded that Mr. James had in effect summarized the WG’s thinking.

Matters Raised	WG/IESBA Response
auditors. He cautioned that the implications are significant.	
PROFESSIONAL SKEPTICISM (PS) FOR AUDITORS VS OTHER PAs	
Mr. Hansen noted the fundamental difference in the role of auditors vs. other PAs. Accordingly, he wondered why there should not be consideration of specific requirements for auditors from a public interest perspective.	Mr. Fleck responded that the specification of requirements for auditors is within the IAASB's remit. The IESBA's charge was to respond to broader stakeholder calls to address the behavioral characteristics comprised in PS as these apply to all PAs.
STAKEHOLDER UNDERSTANDING OF PS	
Mr. Yurdakul agreed with Mr. James. He was of the view that all PAs exercise some degree of PS. He felt that the approach to identifying a broader term would depend on personal characteristics and that there should be some differentiation based on the nature of the work. Mr. Kocktvedgaard wondered whether stakeholders understand the term PS and who would need to understand it.	Mr. Fleck responded that these divergent views illustrated why the roundtables were necessary. He added that Mr. Kocktvedgaard's comments were important as they pointed to the fact that the term PS is used by a wide variety of stakeholders to describe behavioral characteristics expected of all PAs. Mr. Fleck noted that if the project is successful, there would be an educational challenge in explaining the issues to stakeholders.
LINKAGE WITH THE INTERNATIONAL EDUCATION STANDARDS (IESs)	
Mr. Hansen noted that one of the challenges is whether PAs understand the standards as they become more complex. He wondered whether the IESs are the entry point for PAs to understand PS, noting that PAs will not be able to meet public expectations if they do not understand what it means.	Mr. Fleck noted that the IESs effectively lay out the entry requirements into the profession and about continuing professional development. He added, however, that it is critical for PAs to understand the entity's business. In this regard, he noted that in the UK there has been a debate about whether PAs should develop an "MBA" mindset.
Ms. Robert cautioned that the definition of PS in the IAESB standards might cause confusion as this initiative moved forward. Accordingly, she highlighted the need for coordination.	Mr. Gunn responded that the IAESB has a project that will consider the definition of PS with respect to IAESB standards. He added that the IAESB has an early view that the concept of PS applying to all PAs has value.
PIOB OBSERVER'S COMMENTS	
Ms. Pettersson expressed her appreciation for the WG's consideration of the PIOB's concerns on this topic. She stated that she was pleased to see	Mr. Fleck responded that the Working Group is well aware of the need for timeliness but that it was

Matters Raised	WG/IESBA Response
<p>collaboration among the SSBs on the topic and that the initiative was progressing and that all options were being considered. She noted that the PIOB believes the core concept is the same for all PAs, and introducing another term might cause confusion and create a divide between accountants in different capacities. She added that developing application material about how PAs exercise PS in their various capacities would be helpful. She commented that the PIOB was pleased with the idea of roundtables and CP, but was concerned about timeliness.</p>	<p>important to bring stakeholders along on the journey and obtain their buy-in to the way forward.</p> <p>Dr. Thomadakis advised that the IESBA was aiming be as effective as possible but not at the expense of quality. He added that a good consultation paper would save time rather than lengthen the process. He summarized that there is agreement about two fundamentals: PS contains attributes that should apply to all PAs, and PS is a concept that is “patented” in the ISAs. Accordingly, the IESBA must be careful to not create confusion. He added that this issue is not a matter of terminology but of articulating these points. He noted that he was optimistic that the IESBA would find a way towards a satisfactory resolution.</p>
<p>Ms. Pettersson clarified that the PIOB’s concern about timeliness was not about the options but about the process.</p>	

Matters for CAG Consideration

8. The CAG is asked for views on:

- (a) The highlights of the responses to the Consultation Paper and the [feedback from the global roundtables, and the Working Group’s preliminary recommendations for the way forward in Agenda Item E-1](#); and
- (b) The project proposal at **Agenda Item E-2**.

Materials Presented

Agenda Item E-1 Highlights of Responses to the Consultation Paper, *Professional Skepticism – Meeting Public Expectations*, and from the Global Roundtables, and the WG’s Preliminary Recommendations

Agenda Item E-2 Project Proposal: Professional Accountants – Setting Expectations

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

Agenda Item E-3 Summary of Significant Comments from Respondents to the Consultation Paper