

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: Paris, France
Meeting Dates: March 8–9, 2016

Agenda Item J2

Professional Skepticism

Objectives of Agenda Item

1. To obtain Representatives' and Observers' views on the questions relating to professional skepticism in the IAASB's Invitation to Comment: *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (the detailed ITC).

Project Status and Timeline

2. The IAASB has been taking steps towards to emphasize the importance of professional skepticism in audits of financial statements through the International Standards on Auditing (ISAs). The IAASB agreed that that professional skepticism will continue to be a focus area within its future projects. For example, more explicit references have been made to professional skepticism¹ within the IAASB's recently completed standard-setting projects addressing auditor reporting, the auditor's responsibility for other information, and disclosures.
3. The IAASB's [Work Plan for 2015–2016](#) further committed to give priority to the topic of professional skepticism. The Professional Skepticism Working Group (PSWG), with representatives of the three independent standard-setting boards – the IAASB, the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB) – has been established to provide the necessary platform for collaboration among the independent standard-setting boards to determine next steps with respect to professional skepticism.
4. In conjunction with its June 2015 meeting, the IAASB hosted a panel discussion on the topic of professional skepticism to provide the IAASB a further understanding of the issues and an opportunity to discuss the topic with experts in this area. Further information about the June 2015 panel discussion, including an audio recording, is available on the [IAASB's website](#) and was distributed to the CAG via email on August 18.
3. At its September 2015 meeting, the IAASB discussed the conceptual issues related to the topic of professional skepticism, including how the IESBA's and IAESB's standards address professional skepticism and related topics. The key messages from this discussion can be found in section B of the minutes as included in Agenda Item A and in the presentation as presented as Agenda Item J2.2.

¹ For example, as part of the disclosures project, new application material emphasizes the concept of professional skepticism when evaluating the effect of misstatements in disclosures (see paragraph A17 of ISA 450, *Evaluation of Misstatements Identified during the Audit*. Also, ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, requires the inclusion of the statement, "As part of an audit in accordance with ISAs, we exercise professional judgment and professional skepticism throughout the audit" in the Auditor's Responsibilities for the Audit of the Financial Statement section of the auditor's report."

- At its December 2015 meeting, the IAASB approved the ITC, which includes a section on professional skepticism given its relevance to enhancing audit quality. The feedback will further inform the PSWG's efforts to recommend an appropriate way forward to each of the standard-setting boards. The ITC was published in December 2015 and comments are requested by May 16, 2016. In addition, in December 2015 two academics informed the IAASB on a research synthesis with regard to professional skepticism as applied by auditors. The literature research covered the period 2013-2015 and included both published and unpublished research. Further information about the December 2015 presentation is available as a CAG Reference Paper to this agenda item.

Format of the Session

- The March 2016 session on professional skepticism will be a joint session of the IAASB and IESBA CAG. Prof. Annette Köhler, Chair of the PSWG, will provide a brief background on professional skepticism. This will be followed by a discussion using the questions in **Agenda Item J2.1** to obtain Representatives' and Observers' views on professional skepticism. While the detailed ITC included five questions on the topic of professional skepticism, in the interest of time, the joint session discussion will focus on three of these questions.

Matters for CAG Consideration

- Representatives and Observers are asked to provide their views about the questions raised in the ITC included as Agenda Item J2.1

Material Presented – IAASB and IESBA CAG Papers

Agenda Item J2.1	Extract from IAASB's Invitation to Comment: <i>Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits</i>
Agenda Item J2.2	Presentation Professional Skepticism

Material Presented – FOR IAASB and IESBA CAG REFERENCE PURPOSES ONLY

February 2012 IAASB Staff Questions & Answers— <i>Professional Skepticism in an Audit of Financial Statements</i>	http://www.iaasb.org/publications-resources/staff-questions-answers-professional-skepticism-audit-financial-statements
December 2015 Agenda Item 7B- <i>Executive summary-State of Art Research Related to Auditor Professional Skepticism</i>	http://www.iaasb.org/system/files/meetings/files/20151207-IAASB-Agenda_Item_7B-Executive-Summary-State_of_Art_Research_Related_to_Auditor_Professional_Skepticism-final_0.pdf
December 2015 Invitation to Comment: <i>Enhancing Audit Quality in the Public Interest: A Focus on</i>	http://www.iaasb.org/publications-resources/invitation-comment-enhancing-audit-quality-public-interest

*Professional Skepticism,
Quality Control and Group
Audits (Detailed ITC)*

Project History

Project: Professional Skepticism

Summary

	CAG Meeting	IAASB Meeting
Panel Discussion		June 2015
Update on information-gathering	September 2015	September 2015 December 2015
Invitation to Comment: <i>Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits</i>		December 2015

CAG Discussions: Detailed References

Updates / Briefings	<u>September 2015</u> See IAASB CAG meeting material (Agenda Item B): http://www.iaasb.org/cag/meetings/new-york-usa-0
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