

Professional Skepticism

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Professional Skepticism in Enhancing Audit Quality

- Calls for enhanced auditor PS from many stakeholders
 - Regulator and audit oversight authorities
 - Outreach and other national initiatives
 - Academic research
- Core Question ITC: How can we reinforce the fundamental concept that auditors need to apply appropriate professional skepticism throughout the audit?

Feedback from IAASB CAG (September 2015)

- Being aware of *heuristics and biases* can assist auditors better mitigate the effect of those biases
- Accounting firms should create a culture that *rewards* auditors who exercise skeptical behavior or follow up on issues even if it does not result in an audit finding
- Change in *tone at the top* towards serving investors, rather than client is necessary
- Increased *role for others* (GPPC, Member bodies, regulators, including prudential and securities regulators, and TCWG, including audit committees)
- Research suggests that appropriate application of professional skepticism is influenced by a person's individual ethics and *courage*

Professional Skepticism driving Action

How Professional Skepticism Drives Action

Professional skepticism
is an attitude

Professional skepticism is
applied in making
professional judgments

Professional judgments
prompt actions

Documentation of
professional judgments
and related actions

Professional skepticism is essential in all aspects of the audit – from planning and risk assessment through to the critical assessment of audit evidence in forming the auditor’s conclusions.

Professional Skepticism in a Broader Context

- Influence of:
 - Drivers and Impediments at Auditor, Engagement and Firm level
 - Stakeholders in the Reporting Supply Chain
 - Contextual Factors
- Linkage with other IAASB projects
- Role SSBs

Questions

- Is your interpretation of the concept of professional skepticism consistent with how it is defined and referred to in the ISAs? If not, how could the concept be better described?
- What do you believe are the drivers for, and impediments to, the appropriate application of professional skepticism? What role should we take to enhance those drivers and address those impediments? How should we prioritize the areas discussed in paragraph 37?
- Is the listing of areas being explored in paragraph 38–40 complete? If not, what other areas should we or the Joint Working Group consider and why? What do you think are the most important area to be considered?

Questions (C'tnd)

- Do you believe the possible actions we might take in the context of our current projects relating to quality control and group audits will be effective in promoting improved application of professional skepticism? If not, why?
- What actions should others take to address the factors that inhibit the application of professional skepticism and the actions needed to mitigate them (e.g., the IAESB, the IESBA, other international standards setters or NSS, those charged with governance (including audit committee members), firms, or professional accountancy organizations)? Are there activities already completed or underway of which we and the Joint Working Group should be aware?



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