

Meeting: IAASB
Meeting Location: Lima, Peru
Meeting Date: March 13–17, 2017

Agenda Item

5

Professional Skepticism

Objectives of Agenda Item

1. To receive an oral update on the activities of the joint Professional Skepticism Working Group (PSWG) and the IAASB Professional Skepticism Subgroup (the Subgroup)¹ since the December 2016 meeting from the Working Group Chair.

Professional Skepticism Working Group

2. The PSWG includes representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) and is comprised of the following members:
 - Prof. Annette Köhler, WG Chair, IAASB Member (support to WG Chair: Wolfgang Böhm, IAASB Technical Advisor).
 - Charles E. Landes, IAASB Vice Chair.
 - Susan Jones, IAASB Technical Advisor.
 - Richard Fleck, IESBA Deputy Chair.
 - Patricia Mulvaney, IESBA Member.
 - Dave Simko, IAESB Member.
 - Bernard Agulhas, IAESB Member.

Activities since the Last IAASB Discussion

3. Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to share updates of the IAASB, IESBA, and IAESB, as well as the proposed next steps.
4. The Subgroup held a teleconference to further discuss matters related to potential changes to the concept/definition of professional skepticism within the ISAs.
5. Minutes of the December 2016 discussion of the IAASB on Professional Skepticism can be found in the Appendix.

¹ Following the March 2016 IAASB Board meeting, a subgroup of the PSWG was formed (PSWG-IAASB Subgroup or the Subgroup) in order to address specific areas for consideration raised by the Board. The Subgroup consists of the IAASB-related members of the PSWG.

Minutes – IAASB September 2016 Meeting²

Prof Köhler presented **Agenda Item 5-A** to the Board and provided an update of the activities of the Professional Skepticism Working Group (PSWG) since the September 2016 Board meeting. Prof Kohler highlighted the work streams being pursued by the different Boards, and explained that it is not clear what the IAESB is interested in with the planned literature review, but that she would report back to the Board with this information.

JOINT PSWG ACTIVITIES

Prof. Kohler highlighted that the PSWG will develop a joint Professional Skepticism stakeholder communication that would give prominence to the work, individually and in coordination that the standard-setting boards (SSBs) will be undertaking in response to the feedback received by all three SSBs. The IAASB asked the PSWG to clarify:

- The purpose of the stakeholder communication and whether it would seek to obtain additional feedback in some way or serve as an “awareness” piece.
- What is meant by “call to action” and to whom it relates.

EXPLORING FUNDAMENTAL CHANGES TO THE CONCEPT OF PROFESSIONAL SKEPTICISM

The following views were expressed about the PSWG’s discussion of the potential changes to the concept of professional skepticism within the ISAs:

- Concern with the practicality of “No definition of professional skepticism” as an option being analyzed by the PSWG.
- A shift to presumptive doubt would be challenging, while one Board member commented that in his particular jurisdiction, an auditor is not permitted to accept an engagement if he or she has doubts about management.
- Related to the potential option of extending professional skepticism to all professional accountants (PAs), there was the view that the mindset of an auditor is different from that of a professional accountant and that the auditor’s questioning mindset has a clear object, management. But in the case of a professional accountant, who would be the object of their questioning/critical mindset?

The IAASB representatives of the PSWG will focus the analysis of implications and unintended consequences of the following options: 1) A requirement to seek out contradictory evidence, 2) a shift to a more challenging mindset or presumptive doubt, and 3) introducing a concept of levels of professional skepticism.

² These draft minutes are still subject to IAASB review and may be subject to further change.

IESBA SHORT-TERM PROPOSED LANGUAGE

Mr. Richard Fleck (IESBA Deputy Chair and PSWG member) provided the Board with an update regarding the short-term proposals to be considered by the IESBA at its meeting the following week from December 12th–16th. The Board provided the following feedback to the IESBA representatives:

- Support for the proposal to clarify the linkage between professional skepticism and the fundamental principles/independence through additional application material in the IESBA Code of Ethics.
- In relation to the proposed text related to “critical mindset”:
 - It was not clear what problem the proposals regarding a “critical mindset” are attempting to fix.
 - It was noted that the use of the word “mindset” makes a very close link to the “questioning mind” wording in the definition of professional skepticism within the ISAs and instead suggested alternative terms such as “critical thinking.”
 - Given that the term “critical mindset” is a new concept, it is difficult to foresee how it will change auditor behavior, especially for professional accountants in business. It was also noted that there was a risk of unintended consequences.

Prof. Schilder thanked Mr. Fleck for taking steps to be responsive to the feedback provided to him by the IAASB at its September meeting. He summarized the feedback from the board in two ways:

- Generally, the Board members felt the concept was interesting, but struggled to understand what is meant, and expected, by the concept of “critical mindset”; and
- Board members questioned how this concept is different from professional skepticism and how the two terms would be reconciled.

Prof. Schilder closed the session by requesting that Mr. Fleck ask the IESBA to consider sharing a fatal-flaw review of the exposure draft with the full PSWG following the IESBA meeting, prior to its finalization. Mr. Fleck agreed to ask the IESBA to consider this.

WAY FORWARD

For the March 2017 Board meeting, the PSWG intends to present the Board with a draft outline of the stakeholder communication publication.