

Meeting: IAASB
Meeting Location: New York
Meeting Dates: June 21–24, 2016

Agenda Item 2

Professional Skepticism—Cover Note

Objectives of Agenda Item

1. To discuss suggestions on how to emphasize in the IAASB International Standards, in particular in International Standards on Auditing, *Accounting Estimates Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures 540 (ISA 540)*, the application of professional skepticism in making professional judgments with respect to planning and obtaining sufficient appropriate evidence and in sufficiently documenting the application of professional skepticism.

Professional Skepticism Working Group (PSWG)

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:
 - 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
 - Eric Turner, IAASB Technical Advisor
 - Richard Fleck, IESBA Deputy Chair
 - Tone Sakshaug, IESBA Technical Advisor
 - Dave Simko, IAESB Member
 - Bernard Agulhas, IAESB Member

Activities since the Last IAASB Discussion

3. Subsequent to the March 2016 IAASB meeting, the PSWG held one teleconference to share updates on activities by the IAASB, IESBA, and IAESB and the proposed next steps.
4. Since the March 2016 Board meeting, in order to address the specific areas for consideration raised by the Board and the ISA 540 Task Force (ISA 540 TF), a subgroup of the PSWG was formed (PSWG-IAASB Subgroup or the Subgroup). The subgroup consists of the IAASB representatives of the PSWG. The PSWG-IAASB Subgroup held five teleconference meetings to develop the material included in **Agenda Item 2–A and Agenda Item 2–B**.

5. IESBA has expressed its commitment to consider whether there are areas within the IESBA Code where there would be benefit in elaborating on, emphasizing or clarifying ethical considerations relating to professional skepticism in ways that would support and complement the discussion of professional skepticism in the International Standards on Auditing (ISAs) and the International Education Standards (IESs). At its [June 2016 meeting](#), the intention is obtain initial IESBA views on:
 - The approach to be taken to the meaning of professional skepticism and its application.
 - The areas within the IESBA Code where there would be benefit in elaborating on, emphasizing or clarifying the role of professional skepticism.
 - How the concept of professional skepticism should be addressed in the proposed restructured Code.
6. At its April 2016 meeting, the IAESB considered respondents' feedback on a question to stakeholders about what actions can be undertaken by the IAESB to improve engagement partners' and professional accountants' professional competencies related to the application of professional skepticism, as set out in its December 2015 Consultation Paper, [Consultation Paper, Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities](#). The IAESB agreed to defer its detailed professional skepticism discussions, and agreed to consider them jointly with the responses from the IAASB's ITC. The IAESB also established a Task Force, to be chaired by PSWG member, David Simko to develop IAESB specific responses to the issues raised in the response to the IAESB's CP and the IAASB's ITC. Those recommendations will be considered by IAESB at its November meeting.
7. A forward-looking timetable of the IAASB, IESBA, and IAESB is included in the appendix of this cover note.

Way forward

8. The comment period for the Invitation to Comment [Enhancing Audit Quality in the Public Interest, a Focus on Professional Skepticism, Quality Control and Group Audits](#) (the ITC) closed on May 16, 2016. During the coming months the PSWG will analyze the responses to the ITC and report back to the Board at its September meeting.

Actions Requested

9. The IAASB is asked to provide views on the recommendations presented in **Agenda Item 2–A**.

Material Presented

Agenda Item 2–A	Professional Skepticism—Issues and Working Group Recommendations
Agenda Item 2–B	Professional Skepticism—Matrix Addressing Professional Skepticism Within Extant ISAs

Forward-Looking Timetable of the IAASB, IESBA, and IAESB

Timing	IAASB	IESBA	IAESB
June 2016	IAASB meeting to discuss and consider recommendations brought forward by the IAASB representatives of the Professional Skepticism Working Group to the ISA 540 TF on ways to emphasize professional skepticism within ISA 540.	Initial IESBA discussion about the concept of professional skepticism.	N/A
Sept 2016	IAASB meeting to review and discuss the analysis of the responses to the ITC and recommendations from the Professional Skepticism Working Group.	IESBA meeting to review and discuss the analysis of the responses to the IAASB's ITC and recommendations from the Professional Skepticism Working Group.	IAESB CAG meeting to review and discuss the analysis of the responses to the IAESB's CP and IAASB's ITC and recommendations relating to the development of skills and professional competence from the Professional Skepticism Working Group.
Nov 2016	N/A	N/A	IAESB meeting to review and discuss the analysis of the responses to the IAESB's CP and IAASB's ITC and recommendations relating to the development of skills and professional competence from the Professional Skepticism Working Group.
Dec 2016	IAASB meeting to review and consider a draft of an ITC Feedback Statement.	TBD	N/A