



# Professional Skepticism

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IAASB Meeting, New York

Agenda Item 5

December 7, 2016

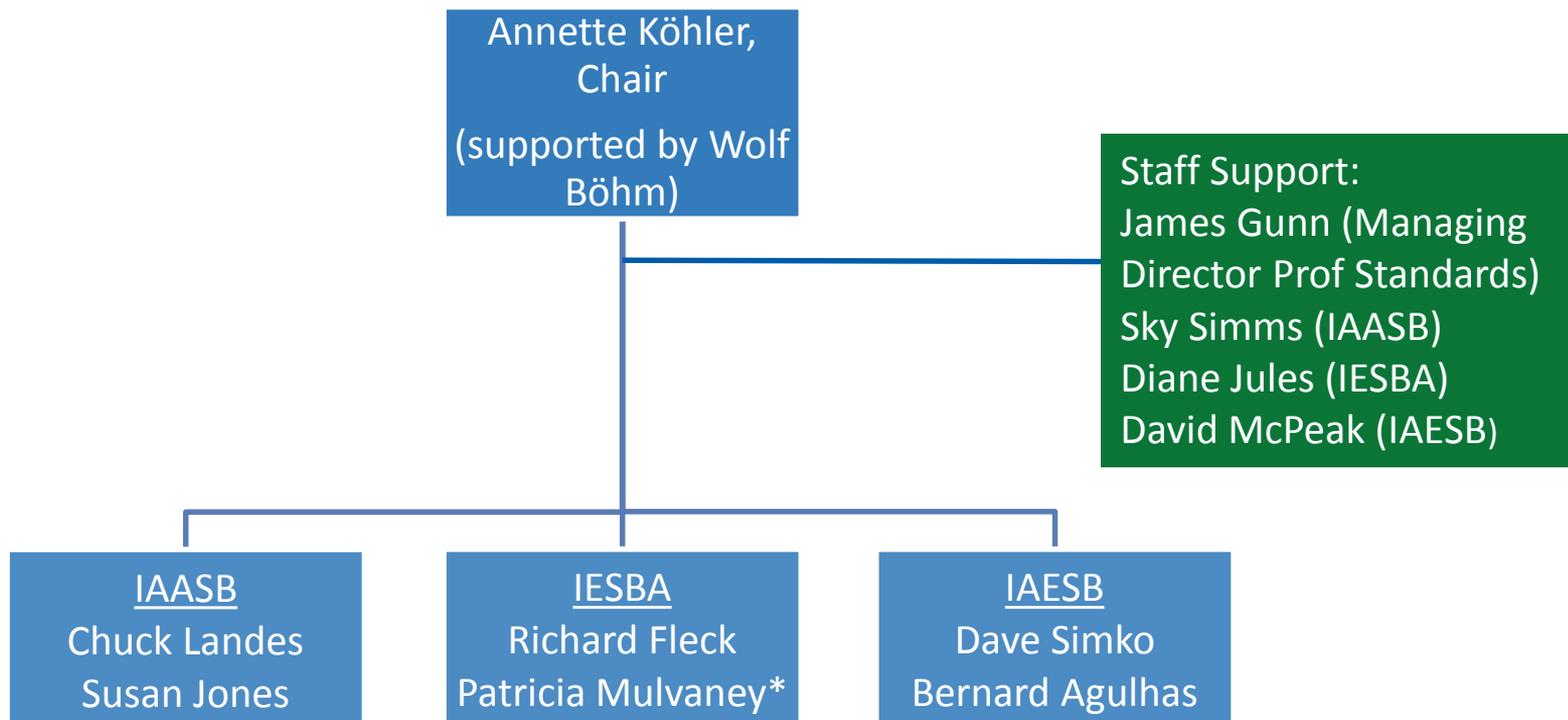
**IAASB**

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## Objectives of the Discussion

- To highlight discussions held by the SSBs and others on the topic of PS (subsequent to the IAASB's September meeting)
  - Highlight discussions of the IAESB's CAG (September 2016) and IAESB (November 2016)
  - Preliminary views from PAIB Committee Outreach
- To inform the IAASB of the PSWG's way forward
  - Joint Professional Skepticism Stakeholder Communication
  - IAASB Subgroup to begin work on an analysis of implications and unintended consequences of potential fundamental changes to the concept of PS within the ISAs

# Professional Skepticism Working Group



\* New member

## IAESB September CAG Highlights

- Feedback provided by Representatives of the IAESB CAG was as follows:
  - There should be a consistent definition of PS among the SSBs
  - The concept /definition of PS is not solely an audit concept, but a professional concept that relates to ethical values and applies to all professional accountants
  - The IAESB was intentional when drafting IES4 by using the term “professional skepticism” in order to demonstrate that PS applies to all PAs
  - The IAESB PS Task Force should clearly define the problems/issues they are trying to solve. Only then can solutions be measured against the problem
  - A few CAG members felt the professional skepticism learning outcomes in the IESs are appropriate and suggested that the recently revised IESs should not be changed until a post-implementation review is completed
  - A literature review may be helpful in developing additional implementation guidance, but may not be helpful in solving execution of the standards by auditors

## IAESB November Meeting Highlights

- IAESB members supported the continued coordination of the SSBs and provided the following views with respect to the short-term and longer-term actions related to PS:
  - In the short-term (2017):
    - Support for a literature review and research paper to inform the IAESB's future decision-making on certain key concepts and the need for future enhancements to the IESs (e.g., behaviors necessary to support the application of PS, completeness of existing learning outcomes)
    - Continue to engage in discussions with the SSBs, the PAIBC, and the SMPC to support expanding the concept of professional skepticism to apply to all professional accountants and explore the benefits and implications of this change
    - Support for monitoring IESBA short-term revisions to the code and assess whether any updates are needed to IES 4 and IES 8
    - Some support to identify education and training good practices designed to create awareness and help professional accountants to apply professional skepticism
  - In the longer-term, the proposed way forward by the Professional Skepticism Task Force:
    - Continue to be engaged in the PSWG
    - Consider the need for additional research to inform on-going decision-making of the IAESB

## PAIB Committee Outreach – Preliminary Views

- As a first step in exploring the implications of fundamental changes to the concept of PS, the Chair of the PSWG presented to the PAIB Committee of IFAC at their September 2016 meeting. Feedback from the Committee was as follows:
  - It is critical that the profession's messaging is not undermined by terminology that implies PAIBs are not part of the profession and do not hold the same professional standards and competence. The need for, and use, of a specific description of PS in the context of assurance engagements does not mean that PS is not applicable to PAIBs
  - The application of PS by PAIBs, particularly in the context of financial statement preparation, makes the work of the auditor easier and is an important part of enhancing audit quality
  - A single narrative of PS for all professional accountants is recommended. However, the current concept of professional skepticism in ISA 200 probably cannot be extended beyond assurance engagements
  - However, PS for PAIBs should not be regulated. Guidance on what PS means and how it might be applied in different professional accountant roles might be useful, for example covering those involved in financial statements preparation and review, but also for other PAIBs such as those involved in planning, forecasting and budgeting, or on boards

## Next steps...A Joint Approach to Feedback

- At its October 2016 physical meeting in Washington DC, the joint PSWG met and discussed several potential ways forward. Two paths were decided...
- **Path #1: The PSWG agreed to develop a joint Professional Skepticism stakeholder communication**
  - Purpose of the document is to give prominence to the work the SSBs will be undertaking, individually and in coordination, and to also highlight the role of others (universities, firms, companies, audit committees, regulators, etc.)
  - The publication will seek to highlight the feedback received from all three SSBs, the impediments (and drivers) to professional skepticism, the linkage to compliance with the fundamental principles, and a “call to action” for others in the financial supporting supply chain
  - Draft outline of this publication will be presented to the IAASB and IESBA at their March 2017 meetings and to the IAESB at its April 2017 meeting

## Next steps...Exploring Fundamental Changes

- **Path #2: The PSWG agreed that given the concept of PS is derived from the ISAs, any potential fundamental changes should first be explored by the IAASB in cooperation with IESBA and the IAESB.**
- To that end, the IAASB Subgroup of the PSWG has begun to explore the implications and unintended consequences of potential fundamental changes to the concept of professional skepticism within the ISAs, including, but not limited to:
  - No definition of PS
  - A shift from a questioning mindset to a more challenging mindset or potentially to presumptive doubt
  - A requirement to seek out contradictory evidence
  - Introducing a concept of levels of professional skepticism rather than the current invariant approach
  - Extension of the concept of PS to all professional accountants

## Matter for IAASB Consideration

The Board is asked to share its preliminary views on the issues raised during this presentation and provide reactions to the planned next steps of the PSWG and the IAASB Subgroup of the PSWG



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