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529 Fifth Avenue, 6th Floor, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
www.iaasb.org



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## Agenda Item **C.5**

**Meeting:** Joint IAASB and IESBA Consultative  
Advisory Group

**Meeting Location:** New York, USA

**Meeting Date:** March 7–8, 2017

**Draft Minutes of the Joint Public Session of the Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
CONSULTATIVE ADVISORY GROUP (IAASB CAG) and INTERNATIONAL ETHICS  
STANDARDS BOARD FOR ACCOUNTANTS CONSULTATIVE ADVISORY GROUP  
(IESBA CAG)**

**Held on September 13, 2016**

**New York, USA**

**PRESENT**

**Members**

Matthew Waldron	IAASB CAG Chairman
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Nicolaas van der Ende	Basel Committee on Banking Supervision (Basel Committee)
Mohini Singh	CFA Institute (CFA)
Juan-Maria Arteagoitia	European Commission (EC)
Myles Thompson	Accountancy Europe (AE)
Erik Bradbury	Financial Executives Institutes (FEI)
Michael Stewart*	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)
David Rockwell	International Bar Association (IBA)
Anne Molyneux	International Corporate Governance Network (ICGN)
Atsushi Iinuma	International Organization of Securities Commissions (IOSCO)

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\* Views expressed by the IASB Representative represent his views and do not necessarily reflect the view of the IASB.

Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)
Gayani Perera	Sri Lanka Accounting and Auditing Standards Monitoring Board
Irina Lopez	World Bank (WB)

**Observers**

Francis Nicholson	Institute of Internal Auditors (IIA)
Paul Sobel	IIA
Dawn McGeachy	International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee
Simon Bradbury	International Monetary Fund (IMF)
Barbara Vanich**	U.S. Public Company Accounting Oversight Board (PCAOB)
Henri Fortin	WB

**IAASB, IESBA and IAESB**

Prof. Arnold Schilder	IAASB Chairman
Chuck Landes	IAASB Deputy Chair
Annette Köhler (Agenda Item J3)	IAASB Member and Working Group (WG) Chair
Stavros Thomadakis	IESBA Chairman
Richard Fleck	IESBA Deputy Chair and WG Chair
David Simko	International Accounting Education Standards Board (IAESB) Member
James Gunn	Managing Director of Professional Standards
Kathleen Healy	IAASB Technical Director
Jasper van den Hout	IAASB Manager, Standards Development and Technical Projects
Natalie Klonaridis (Agenda Item J2)	IAASB Principal
Schuyler Schimms (Agenda Item J3)	IAASB Manager, Standards Development and Technical Projects
Ken Siong	IESBA Technical Director

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\*\* Views expressed by the PCAOB Representative represent her views and not necessarily the views of the PCAOB Board or other Board members or staff.

Diane Jules IESBA Deputy Director  
**Public Interest Oversight Board (PIOB)** Karel van Hulle

## **APOLOGIES**

### **Members**

Kristian Koktvedgaard	BUSINESSEUROPE
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Noémi Robert	AE
Dr. Obaid Saif Hamad Ali Al Zaabi	Gulf States Regulatory Authorities (GSRA)
John Kuyers	Information Systems Audit and Control Association (ISACA)
Jean-Luc Michel	International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Patricia Miller	IIA
Nigel James	IOSCO
Huseyin Yurdakul	IOSCO
Mauro Bini	International Valuation Standards Council (IVSC)
Jaseem Ahmed	Islamic Financial Services Board (IFSB)
Wei Meng	World Federation of Exchanges (WFE)

### **Observers**

Norio Igarashi	Japanese Financial Services Agency (JFSA)
Martin Baumann	U.S. Public Company Accounting Oversight Board (PCAOB)

**September 13, 2016<sup>1</sup>**

**Welcome and Approval of Minutes of Previous Meetings (Agenda Item J1)**

To *APPROVE* the minutes of the March 2016 joint IESBA and IAASB CAG public session.

OPENING REMARKS

Mr. Waldron welcomed the Representatives, Mr. van Hulle from the PIOB as well as the IAASB and IESBA Chairman and Deputy Chair, the IAASB and IESBA TF and WG Chairs, and Staff as well as the observers.

MINUTES OF THE PREVIOUS MEETINGS

The minutes of the March 2016 joint IAASB and IESBA CAG public meeting were approved subject to a change to clarify a remark from Mr. Rockwell.

**Non-Compliance with Laws and Regulations (NOCLAR) (Agenda Item J2)**

To *REPORT BACK* on the March 2016 joint session of the IAASB/IESBA CAGs regarding:

- The proposed amendments to the NOCLAR provisions to be included in the IESBA *Code of Ethics for Professional Accountants* (IESBA Code) in the light of the significant comments received on the IESBA's May 2015 re-Exposure Draft, *Responding to Non-Compliance with Laws and Regulations* (re-ED); and
- The proposed amendments to ISA 250<sup>2</sup> and related conforming amendments to other IAASB International Standards addressing NOCLAR, in the light of the significant comments received on the IAASB's July 2015 Exposure Draft, *Responding to Non-Compliance or Suspected Non-Compliance with Laws or Regulations*.

Mr. Landes highlighted the report back to the CAG on NOCLAR and explained how the IAASB was responsive to the CAG's comments raised at the March 2016 meeting. Ms. Molyneux asked about what the anticipated challenges are in implementing the revisions to the standard globally. Mr. Landes emphasized that under ISA 250 (Revised) the auditor is not required to report NOCLAR to an appropriate authority outside the entity. He clarified the key amendment to the standard, i.e., for the auditor to consider whether to report NOCLAR to an appropriate authority outside the entity in terms of law, regulation or relevant ethical requirements, also taking into consideration the confidentiality requirements relevant to the auditor. Mr. Landes added that the difficulties in implementing the standards would most likely arise in jurisdictions with rigorous confidentiality requirements that need to be taken into consideration, for example, the United States where there are national laws and regulations relating to confidentiality that could prevent the auditor from reporting NOCLAR to an appropriate authority.

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<sup>1</sup> The minutes present the discussions in the order that they were taken. This may not be the same as that indicated on the agenda.

<sup>2</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

### Professional Skepticism (Agenda Item J3)

- To *PRESENT* the analysis of comment letter responses received to the IAASB's Invitation to comment (ITC), highlight feedback received by the IESBA and the IAESB from its stakeholders on the topic of professional skepticism, and actions that could be taken by the three standard-setting boards (SSBs), individually and in coordination, to enhance the application of professional skepticism; and
- To *OBTAIN* Representatives views about the preliminary recommendations of the Professional Skepticism Working Group (PSWG), in particular, with respect to the IAASB and the IESBA individually, as well as with respect to the joint work of the three SSBs through the PSWG.

Prof. Köhler introduced the topic by summarizing the key areas of feedback from the responses to the IAASB's ITC, discussed in detail within **Agenda Item J3-A**, noting the following:

- The overall strong support for the joint coordination by the IAASB, IESBA, and IAESB to focus on consistency between the SSBs on the concept/definition of professional skepticism and clarification as to how the concept of professional skepticism relates to the fundamental principles in the IESBA Code.
- The analysis of impediments to the exercise of professional skepticism in **Agenda Item J3-B**, which showed both an important link to compliance with the fundamental principles within the IESBA Code, as well as the importance of education and training of auditors in driving the exercise of professional skepticism.
- Mixed views over whether the definition of professional skepticism within ISA 200<sup>3</sup> needs to be changed or whether the IAASB could instead be more clear how it expects professional skepticism to be demonstrated.
- A strong link between professional skepticism and other current projects of the IAASB, in particular, accounting estimates/ISA 540,<sup>4</sup> risk assessment/ISA 315 (Revised),<sup>5</sup> quality control at both the firm level/ISQC 1<sup>6</sup> and the engagement level/ ISA 220,<sup>7</sup> and group audits/ISA 600.<sup>8</sup>

Mr. Fleck summarized the feedback received by IESBA stakeholders on the topic of professional skepticism, noting that the feedback has come from responses to the IAASB's ITC as well as from other sources, such as the March 2016 CAG meeting (e.g., the interactions of the concept of professional skepticism and moral courage). He also noted feedback from IOSCO was that the fundamental principles within the IESBA Code

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<sup>3</sup> ISA 200, *Overall Objectives of The Independent Auditor and the Conduct of an Audit In Accordance with International Standards on Auditing*, paragraph 13(l)

<sup>4</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>5</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>6</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

<sup>7</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>8</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

should emphasize the importance of professional skepticism in the same way as it emphasizes independence.

Mr. Simko summarized the status of the IAESB discussions on the topic of professional skepticism which have been informed by responses to its Consultation Paper, responses to the IAASB's ITC, and the work of its Professional Skepticism Task Force (Task Force). Based on this feedback, the Task Force is in the process of considering whether a separate behavioral competence category should be added to the education standards. The IAESB CAG and IAESB will consider this information at their meetings in September 2016 and November 2016, respectively.

Prof Köhler noted that one of the potential outputs of the PSWG that has been discussed is a thought-piece or feedback statement based on the feedback received by all three SSBs that outlines how each board intends to address the topic within their standards and the IESBA Code.

#### SPECIFIC MATTERS THAT COULD BE ADDRESSED BY THE IAASB

Prof Köhler then presented the recommendations for matters that could be addressed by the IAASB, which include:

- Focusing on how the concept of professional skepticism is described and referred to within the IAASB's current projects; and
- A new project focused elaborating what "a critical assessment of evidence" entails (by seeking to enhance ISA 500<sup>9</sup> and other ISAs) and reconsidering requirements related to the auditor's documentation in accordance with ISA 230,<sup>10</sup> in particular in relation to significant professional judgments made in planning and performing the audit.

The Representatives and Observers commented as follows:

- Mr. van der Ende supported the work of the PSWG, as did Mr. Yoshii, and in particular the separation between the PSWG's work in the short term versus the longer term. In the short term, especially as it relates to the ISA 315 (Revised) and ISA 540 projects, it will be important for the public (including regulators) to see how the concept of professional skepticism is being enhanced within the auditing standards. He also questioned whether these enhancements could be considered "innovative" if they are based on the extant concept of professional skepticism and suggested that a longer-term focus as to whether a fundamental shift to the definition of professional skepticism may be needed.
- Ms. Elliott agreed with Mr. van der Ende's comments, but expressed concerns on the timing of the proposed new project related to audit evidence and documentation given the other priorities of the IAASB. Mr. Hansen agreed. Ms. Elliott explained that, because professional skepticism is so broadly spread across the ISAs, by only modifying ISA 500 it may give the wrong impression that the Board has not considered taking a holistic view. She was of the view that it might make more sense to take more of a holistic view and potentially consider the definition in ISA 200 first, before undertaking a project to revise ISA 500. Ms. Healy explained that feedback to the ITC had indicated that exploring issues related to audit evidence and documentation would be more helpful to enhance the application

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<sup>9</sup> ISA 500, *Audit Evidence*

<sup>10</sup> ISA 230, *Audit Documentation*

of professional skepticism than changing the definition alone. She also noted that commencing work on ISA 500 would also be very relevant to the IAASB's efforts on the topic of data analytics. Prof. Köhler also noted that efforts on ISA 500 and ISA 230 could lead to consequential amendments to other standards.

- Mr. Iinuma supported the proposed new project on audit evidence and documentation, as did Mr. S. Bradbury. Mr. Fortin also suggested that the IAASB consider looking at ISA 200 in conjunction with ISA 500 and ISA 230, to provide more guidance to support the requirement for the auditor to apply professional skepticism and explain how professional skepticism relates to independence. Prof. Köhler responded that any work on ISA 200, including any changes deemed necessary to the definition of professional skepticism, would be part of the longer term work of the PSWG. Additionally, Mr. Iinuma referred to IOSCO's comment letter response to the ITC, noting that they also recommended revising ISA 240<sup>11</sup> and ISA 620<sup>12</sup> to enhance the concept of professional skepticism. He also suggested that the IAASB encourage firms to strengthen the apprenticeship model within the firm so as to enable less seasoned auditors to learn their skill by observing more experienced auditors.
- Mr. Dalkin cautioned against overuse of the term "professional skepticism" and focus on how the standards can influence performance and behaviors. Ms. Senowa explained how the PCAOB Staff is considering addressing some performance issues related to the exercise of professional skepticism. She noted that, in an effort to shift towards a more challenging mindset by the auditor, the PCAOB Staff is proposing using words within the standards such as "corroborate" rather than "compare." Additionally, the PCAOB is supportive of including clear performance requirements that encourage auditors to apply professional skepticism (including reminders of some requirements), acknowledging that the increased potential for management bias should drive professional skepticism, and during engagement team fraud discussions specifically identifying those areas that may be sensitive to bias. Mr. Hansen added that the IAASB should also consider what may be missing from the definition and from the standards that make reference to professional skepticism, for example the concept of impaired professional skepticism, especially on a long-term basis and how education may play a role in enhancing auditor behavior.
- Mr. Iinuma suggested that incremental application guidance could be added to ISQC 1 (e.g., in the context of paragraph A24 of ISQC 1, that focuses on the estimation of personnel needs) to acknowledge that the application or effectiveness of professional skepticism, objectivity, and due care could potentially decrease as the staff workload increases beyond a reasonable level.
- Mr. Yoshii also noted that auditor skill sets were particularly important to be able to apply professional skepticism, and noted that he believes auditors need to have skills akin to those of analysts.

#### SPECIFIC MATTERS THAT COULD BE ADDRESSED BY THE IESBA

Mr. Fleck briefed the CAGs on the IESBA's recent activities with respect to professional skepticism and the planned discussion at the September 2016 IESBA meeting. He explained that in response to the feedback

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<sup>11</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>12</sup> ISA 620, *Using the Work of an Auditor's Expert*

from the IESBA's stakeholders, including feedback during the Structure and Safeguards sessions at the March 2016 IESBA CAG meeting, the IESBA had asked that its representatives on the PSWG explore how to describe the linkage between professional skepticism, the fundamental principles and independence. He drew attention to **Agenda Item J3-C**, the “professional skepticism strawman” (the Strawman) and explained that, for discussion purposes only, it is an articulation of how:

- Professional skepticism might be described in the context of the IESBA Code.
- The IESBA Code might describe the linkage between professional skepticism and the fundamental principles.<sup>13</sup>
- A determination could be made about whether professional skepticism is applicable in the particular circumstances, and the considerations for applying it in the context of the IESBA Code.
- Professional accountants (PAs) might document professional skepticism.

Mr. Fleck reported that the PSWG had mixed views about the Strawman. He noted that while some within the PSWG were supportive of the direction of the Strawman, others were concerned that it prejudged a longer-term discussion about whether the concept of professional scepticism should apply to all PAs, and accordingly whether the IAASB definition of professional skepticism should be changed. The latter suggested that the inclusion of certain parts of the Strawman in the IESBA Code should either be deferred and explored as part of a longer-term project, or omitted. They also suggested that an analysis of the implications for non-assurance engagements is needed, as well as further discussion among the three SSBs and their respective CAGs, before conclusions are drawn about whether the Strawman should be included in the restructured IESBA Code.

Mr. Fleck indicated that the joint CAGs' views about the Strawman would help inform the IESBA about its next steps with respect to professional skepticism.<sup>14</sup> In particular, the CAG's advice will help inform what, if anything, about professional skepticism should be included in the proposed restructured IESBA Code.<sup>15</sup>

Representatives were asked:

- Whether they would support the preliminary recommendation for the IESBA to discuss the relationship between the fundamental principles in the IESBA Code (as well as independence) and professional skepticism, and how this relationship should be addressed within the IESBA Code;
- Whether they believe that further analysis and dialogue is needed in order to reach an informed decision;

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<sup>13</sup> The document also included a placeholder for how the linkage between professional skepticism and independence might be described.

<sup>14</sup> It was noted that in effect, the IESBA would need to consider the following:

- Whether to retain extant professional skepticism references in the IESBA Code, and do nothing further;
- Whether to do nothing now, but to consider a separate professional skepticism project at a future date; or
- Whether to consider a “short-term” measure to emphasize professional skepticism in the proposed restructured IESBA Code and undertake a “longer-term” professional skepticism project.

<sup>15</sup> The IESBA will need to decide on the applicability of any new professional skepticism material that is included the proposed restructured IESBA Code.



- What other activities they believe would be necessary of the IESBA in response to the feedback received to date; and
- About the components of the Strawman and, in particular, whether:
  - It appropriately described the linkage between the concept of professional skepticism and the fundamental principles set out in the IESBA Code.
  - It captures all of the components of professional skepticism and, if it does not, what should be excluded or included.
  - There are any potential implications of wording of this nature on the IESBA Code and the IAASB's standards.

The following matters were raised:

- Reacting to Prof. Köhler's remarks about the ISA 200 definition of professional skepticism, Mr. Dalkin observed that the concept of professional skepticism is specific to and, in his view, has an established and well understood meaning in the context of audit and assurance engagements. While he believed that it is important for all PAs to be skeptical in fulfilling their responsibilities, he was of the view that this expectation is different from what is expected of PAs in an audit and assurance environment. He suggested that it might be more appropriate to use a different word to describe the skeptical mindset that is expected of PAs who do not perform audits and assurance engagement. In addition, he cautioned against extending the concept of professional skepticism in the ISAs to all PAs because doing so might either weaken it or create confusion. He suggested a need to step back to carefully consider the potential for unintended consequences. He also pointed out that there are some services that PAs perform that require less skepticism and that, in some cases, PAs serve as advocates for their clients (e.g., in litigation support work).
- Mr. Hansen concurred with Mr. Dalkin's caution regarding the potential for unintended consequences. However, Mr. Hansen posited that professional skepticism should apply not only to PAs, but also to all other professions. He felt that the Strawman should be seriously considered, and encouraged the IESBA to consider what steps might be taken in the short-term to emphasize the concept of professional skepticism in the restructured IESBA Code.
- Ms. Molyneux was of the view that the Strawman well outlined the issues. She agreed with Mr. Hansen in that she cannot view herself as being a PA without being professionally skeptical. She encouraged IESBA consideration of a short-term response but also a longer-term analysis of the expectations of all PAs. She acknowledged the potential for unintended consequences and the importance of not diminishing the meaning of professional skepticism at it applies to auditors. She added that in her view the concept of professional skepticism should apply not only to all PAs but also to those with responsibilities for overseeing their work, specifically those charged with governance (TCWG).
- Mr. Dalkin cautioned that he would not necessarily label the objectivity of TCWG as professional skepticism. He wondered whether a different term could be used.
- Ms. McGeachy echoed Mr. Dalkin's concerns about the potential for unintended consequences. While she could envision extending the concept of professional skepticism to PAs performing compilation engagements, she felt it would be more difficult to do so with respect to PAs who provide

tax preparation services as these are premised on good faith reliance on information provided by the clients. She questioned the need for the last paragraph of the Strawman that addresses documentation and wondered how a short-term response in the restructured IESBA Code would dovetail with a longer-term project. With respect to Ms. McGeachy's comment regarding documentation, Mr. Fleck noted that the paragraph was intended to be a response to regulatory concerns and assist PAs to defend themselves against claims that they did not apply appropriate professional skepticism in their engagements. He added, however, that inclusion of the material on documentation in the restructured IESBA Code would be subject to IESBA deliberation and not a foregone conclusion.

- With respect to the concerns about the potential for unintended consequences, Mr. Fleck responded that the IESBA representatives on the PSWG are alert to such concerns, especially with respect to the suggestion of a short-term response.
- Ms. Lopez noted that in her view the attitude of professional skepticism is very relevant to PAs in business (PAIBs), not only to PAs performing audits and assurance engagements. As illustration, she highlighted the need for professional skepticism in PAIBs' judgments about accounting estimates and accounting policies. She encouraged the PSWG to explore how this broader application of professional skepticism might be reflected in the standards, regardless of whether this would be by way of a short-term or longer-term initiative.
- Mr. Stewart noted that the discussion about a broader application of professional skepticism raises questions about what role professional skepticism should play with respect to the preparation of financial statements; and what articulation of professional skepticism the IASB might wish to include in its *Conceptual Framework for Financial Reporting* (the IFRS Framework). He explained that although the IASB and its Staff have not yet formed a formal view about this latter question, based on his read of the IFRS Framework, in particular, how it describes "faithful representation,"<sup>16</sup> it appears that a preparer of financial statements would need to apply professional skepticism in order for the financial statements to meet the objective of faithful representation – i.e., meet the underlying characteristics of completeness, neutrality and freedom from error. Mr. Stewart pointed out that the IFRS Framework currently does not explicitly address professional skepticism. However, he would solicit views from his colleagues about what role, if any, professional skepticism should play in the application of the IFRS Framework in advance of the next CAG meeting. Mr. Fleck welcomed Mr. Stewart's remarks, especially in view of the fact that compliance with the fundamental principle of integrity requires that PAs not knowingly be associated with misleading information. He noted that one of the ways in which PAs can comply with this fundamental principle is to apply professional skepticism.
- Mr. Nicolson complimented the PSWG and the SSBs on this very important initiative. He added that there was much to commend to the Strawman. While acknowledging the potential for unintended

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<sup>16</sup> The IFRS Framework describes the basic concepts that underlie the preparation and presentation of financial statements for external users. The IFRS Framework notes that "to be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent. This fundamental characteristic seeks to maximize the underlying characteristics of completeness, neutrality and freedom from error. Information must be both relevant and faithfully represented if it is to be useful."

consequences, he believed that professional skepticism is a mindset that applies to all PAs. He added that it is the application of professional skepticism that is key.

- Mr. Iinuma supported the Strawman, in particular the paragraph that describes the relationship between professional skepticism and the fundamental principles. He reiterated the views expressed by IOSCO in its comment letter responding to the ITC regarding the need for any output from this joint professional skepticism initiative to focus on bringing about a change in auditor behavior. Accordingly, he hoped that the IESBA would endeavor to focus on the need for that change in auditor behavior.
- Mr. Koktvedgaard shared his experience of being involved in a number of Danish tribunal cases involving accounting for value-added tax, which raised questions about whether fraud was involved or whether it was just poor audit quality. In his view, the requirements in the IESBA Code and the standards exist, but are not being adhered to because the PA did not exercise appropriate professional judgment to determine the appropriate questions to ask, or the right actions that should be taken.
- Mr. Fortin wondered whether the question was whether professional skepticism should apply to all PAs. Mr. Fleck responded that the IESBA has not yet developed a proposal and that the joint CAGs' input would help determine what steps the IESBA might take in the short term and in the longer-term. In this regard, Mr. Fleck added that there are a number of issues for the IESBA to deliberate.

Mr. Fleck thanked the joint CAGs for their feedback. He acknowledged the concerns about the potential for unintended consequences and indicated that this would be an important consideration for the IESBA as it considers the next steps. He then turned over to Prof. Köhler to lead the rest of the presentation.

#### THE DEFINITION OF PROFESSIONAL SKEPTICISM, INCLUDING CONSIDERATION OF THE POTENTIAL NEED FOR FUNDAMENTAL CHANGES TO THE CONCEPT

Building on the discussion on the Strawman, Prof. Köhler highlighted the potential need for a longer-term consideration of whether there is a need for a fundamental change to the definition/concept of professional skepticism (as described in Section F of **Agenda Item J3-A**).

The Representatives and Observers commented as follows:

- Related to the concept of “levels” of professional skepticism, the following comments were made:
  - Mr. Dalkin noted that the suggestion by respondents to the ITC that the auditor should apply a professional skepticism continuum that links higher levels of risk of material misstatement to a more skeptical mindset and skeptical actions by the auditor could be confusing. Mr. Thompson agreed and commented that perhaps this suggestion from respondents is actually linked to the auditor's risk assessment and obtaining contradictory evidence. Mr. Nicholson also agreed with Mr. Dalkin, pointing out that it comes down to whether the auditor has obtained sufficient appropriate evidence to address the identified risk of material misstatement and satisfy the auditor's professional skepticism.
  - Mr. Fortin agreed that there are certain instances where the auditor should exercise different degrees of skepticism and highlighted the importance of demonstrating that contradictory evidence has been considered.

- Mr. Koktvedgaard noted that ISA 240 already includes a separate level of professional skepticism when the existence of fraud is identified, and therefore he was of the view that the ISAs already make reference to different levels of professional skepticism.
- Mr. Koktvedgaard, referring to paragraph 40 of the agenda item, cautioned against the creation of too many requirements such that it becomes a “checklist” for auditors. He stressed that professional skepticism serves as a stand-back and by creating too many requirements, it may diminish what auditors are expected to do.
- Mr. S. Bradbury added that he believes any enhancements to the definition of professional skepticism should focus on the mindset of the auditor and shift to a more challenging or doubtful attitude, rather than the “critical assessment of audit evidence” as this is more procedural than behavioral.
- Ms. Borgerth commented that the SSBs’ standards should be careful not to move towards an attitude of presumptive doubt because the auditor may not know when they have obtained sufficient appropriate evidence; the end goal should be to ensure the reliability of the information prepared by management.

#### CONSIDERATION OF A COMMON DESCRIPTION OF PROFESSIONAL SKEPTICISM BY THE SSBs AND THE POSSIBILITY OF EXTENDING THE CONCEPT BEYOND AUDIT AND ASSURANCE ENGAGEMENTS

In addition to providing thoughts on the Strawman outlined above, the Representatives and Observers commented as follows:

Mr. Hines addressed Ms. Molyneux’s and others’ comments about the wider application of the concept of professional skepticism noting that, when accountants are providing professional advice, they must take into account the capacity in which they are providing such advice and the service they have been contracted to provide. He therefore was of the view that the importance of professional skepticism may vary depending on whether an individual is providing an audit opinion or participating in a committee.

#### PIOB OBSERVER’S REMARKS

Mr. van Hulle emphasized that the concept of professional skepticism is fundamental to what is expected of auditors in terms of being professionals who have a critical attitude / state of mind and are independent and objective. In his view, the concept of professional skepticism should be viewed using a holistic approach (rather than being addressed “piece meal” in only some standards). Mr. van Hulle also noted the auditor must first comply with the fundamental principles within the IESBA Code and be independent to be in a position to apply professional skepticism. He suggested that the terminology used to enhance this concept should be strengthened to convey that “you cannot consider yourself an auditor unless you do X.”

#### WAY FORWARD

Prof Köhler thanked the CAGs for the feedback, noting that the PSWG would consider the comments as part of its further deliberations.