

Agenda Item 9-A

Professional Skepticism—Issues and Recommendations

Objective of the Agenda Item

1. To obtain the views of the IAASB on the premises, analysis, conclusions, and recommendations related to an invariant vs. variable concept of professional skepticism.

A. Introduction – Issues of Focus

1. Based on the Issues Paper provided to the IAASB in its September 2016 meeting¹, in the December meeting of the IAASB, Prof. Köhler, the chair of the Joint Professional Skepticism Working Group (PSWG) provided a presentation that included a proposal on the way forward for the IAASB in relation to the exploration of fundamental changes to the concept of professional skepticism.² The minutes of the December 2016 meeting of the IAASB in relation to professional skepticism are provided in Appendix A to this Agenda Paper.
2. The IAASB representatives of the PSWG form the PSWG IAASB Subgroup (the Subgroup) and this group focuses on carrying out the actions that directly impact the IAASB and its projects. This paper represents discussions of the Subgroup.
3. In line with the views of the IAASB expressed at its December 2016 meeting, the Subgroup intends to focus the analysis of implications and potential unintended consequences on the following themes:
 - A requirement to seek out contradictory or inconsistent evidence;
 - A shift to a more challenging mindset or presumptive doubt; and
 - Introducing a concept of levels of professional skepticism (see extract from the minutes in Appendix A).
4. Based upon a detailed preliminary analysis of these three themes that was prepared for the Subgroup and originally formed the basis for Section F of the Issues Paper for the September meeting of the IAASB,³ the Subgroup has concluded that these three themes are interlinked. Furthermore, these themes are conceptually challenging. For these reasons, the Subgroup believes that as a first step the Subgroup would seek to provide an analysis to the IAASB for further discussion of the central issue: whether an invariant or variable concept of professional skepticism (“levels of professional skepticism”) is appropriate. The resolution of this theme would also have an impact on how the other two themes ought to be analyzed thereafter.

¹ Agenda Item 8-A “Professional Skepticism – Issues (Including Feedback to the ITC) and Joint Working Group’s Preliminary Recommendations on the Proposed Way Forward”, September 2016 meeting of the IAASB.
<https://www.iaasb.org/meetings/hong-kong-0>

² Agenda Item 5-A “Professional Skepticism Presentation”, December 2016 meeting of the IAASB.
<https://www.iaasb.org/meetings/new-york-usa-14>

³ Agenda Item 8-A “Professional Skepticism – Issues (Including Feedback to the ITC) and Joint Working Group’s Preliminary Recommendations on the Proposed Way Forward”, September 2016 meeting of the IAASB.
<https://www.iaasb.org/meetings/hong-kong-0>

B. Premises Upon Which This Analysis Is Based

5. An understanding of the concept of professional skepticism as currently defined in IAASB engagement standards forms an important part of the basis for considering the implications and related advantages and disadvantages of an invariant versus a variable concept, and for whether consideration ought to be given to changing the current concept. There are a number of **premises** upon which the analysis is based that might be considered as being generally accepted by some IAASB Board members, but questioned by other Board members or by others who read the IAASB publicly available Agenda Papers. For these reasons, the Subgroup has chosen to make these premises explicit before providing the analysis of the implications and related advantages and disadvantages of an invariant versus a variable concept of professional skepticism. The analyses supporting each of these premises are provided in Appendices to this Agenda Paper. This approach has the advantage of permitting those who regard these premises as being generally accepted to not need to read the material supporting the premises, while providing the additional analyses for those readers who may wish to refer to them.
5. Appendix B to this Agenda Paper provides an analysis of how the concept of professional skepticism, as currently defined, compares with other related defined and undefined concepts in the ISAs. Based on the analysis in Appendix B to this Agenda Paper, “professional skepticism” in IAASB engagement standards for assurance engagements represents a “term of art” for a concept that is defined as an attitude that involves:
 - Exercising a questioning mind,
 - Being alert to conditions that may indicate possible misstatements, and
 - Critically assessing evidence.
6. Although the concept of professional skepticism is used to evaluate whether sufficient appropriate audit evidence has been obtained, and therefore whether audit risk has been reduced to an acceptably low level and consequently reasonable assurance has been obtained, the concept can be clearly distinguished from these and other related concepts in the ISAs. In particular, professional skepticism plays an important role in considering the persuasiveness of audit evidence.

Premise 1

The concept of professional skepticism as currently defined can be clearly distinguished from other related concepts in the ISAs and plays an important role in considering the persuasiveness of audit evidence.

7. Appendix C to this Agenda Paper provides an analysis of how the concept of professional skepticism as currently defined compares with a number of concepts in the IESBA Code of Ethics (hereinafter referred to as the “Code”) that may be related to the meaning of professional skepticism or that refer to professional skepticism. These concepts in the Code comprise the fundamental principles of the Code and two concepts of independence.
8. Based upon the analysis in Appendix C to this Agenda Paper, the concept of professional skepticism extends beyond the concepts in the Code because it involves a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence – none of which are covered in the fundamental principles or independence as defined in the Code, but are important for the performance of assurance engagements. Consequently, even though the responses

to the IAASB's Invitation to Comment (ITC)⁴ suggest that the inappropriate application of professional skepticism might actually be indicative of inappropriate application of the fundamental principles of the Code or independence of mind, the concept of professional skepticism applicable to assurance engagements is separate from the concepts in the Code.

Premise 2

Although the responses from the ITC suggest that the inappropriate application of professional skepticism might be indicative of inappropriate application of the fundamental principles or of independence of mind as defined in the IESBA Code of Ethics, the concept of professional skepticism as currently defined in IAASB engagements standards applicable to assurance engagements extends beyond the fundamental principles and independence as currently defined in the Code.

9. Appendix D to this Agenda Paper provides an analysis of how the concept of professional skepticism as currently defined compares with the concept of “skepticism” as commonly defined and understood.
10. On this basis of the analysis in Appendix D to this Agenda Paper, it can be argued that skepticism as commonly understood involves the disposition to need information (evidence) about the credibility of other information before drawing a conclusion on that credibility.
11. In addition, the meaning of the term “professional skepticism” is NOT the combination of literal meaning of the adjective “professional” and of the noun “skepticism” as commonly defined and understood. Consequently, the term “professional skepticism” as currently defined does not mean “skepticism exercised by a professional (or professional accountant)”, but rather means exercising a questioning mind, being alert to conditions that may indicate possible misstatements, and critically assessing evidence, in an assurance engagement.
12. What sets professional skepticism apart from skepticism as commonly defined is the 1. alertness to the sources of potential misstatements and 2. critical evaluation of whether evidence is as persuasive as it needs to be. The former provides a basis for the application of a questioning mind about the credibility of the contents of the financial statements and helps drive the nature and extent of the evidence obtained (through risk assessment procedures and responses to assessed risks) needed to satisfy the auditor. The result of the latter (the critical evaluation) prompts an auditor to obtain additional evidence when the auditor concludes that the evidence is not as persuasive as it needs to be.
13. These points are central to what an assurance engagement is all about: alertness to, and consideration or assessment of, risks of material misstatement, and the need to seek to obtain evidence until the assurance practitioner concludes that the evidence obtained is persuasive enough. For these reasons, professional skepticism as currently defined in IAASB Standards is a crucial additional aspect of assurance engagements beyond skepticism as commonly defined.

⁴ ITC, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*. <http://www.ifac.org/publications-resources/invitation-comment-enhancing-audit-quality-public-interest>

Premise 3a

Skepticism as commonly defined and understood involves the disposition to question and need information (evidence) about the credibility of other information before drawing a conclusion on that credibility.

Premise 3b

Professional skepticism goes beyond skepticism as commonly defined in that professional skepticism requires

1. Alertness to the sources of potential misstatements, and
2. A critical evaluation of whether evidence is as persuasive as it needs to be.

Premise 3c

The two matters in Premise 3b for which professional skepticism goes beyond skepticism as commonly defined are of central importance to assurance engagements.

Matter for IAASB Consideration

1. Does the IAASB agree with the premises underlying the analysis of the implications and related advantages and disadvantages of an invariant versus a variable concept of professional skepticism? Why or why not?

C. Analysis of an Invariant vs. Variable (“levels”) Concept of Professional Skepticism

The Current Invariant Concept in IAASB Engagement Standards

14. Currently, the ISAs and IAASB assurance standards (Paragraph 15 of ISA 200,⁵ paragraph 22 of ISRE 2400,⁶ and paragraph 37 of ISAE 3000⁷ (Revised)) require the auditor to exercise professional skepticism without applying different “levels” of professional skepticism – that is, professional skepticism is an invariant concept. This is partly because in finalizing the ISAE 3000 and ISRE 2400 projects, the IAASB decided that professional skepticism does not vary by level of assurance (that is, the “level” is the same for limited and reasonable assurance). The use of an invariant concept of professional skepticism is in line with how professional skepticism is currently being used in auditing standards in other major jurisdictions.
15. In line with this policy, the ISAs neither use the term “levels of professional skepticism”, nor does the wording in the ISAs imply that such levels exist. There is one exception in ISA 240⁸ paragraph A33 in relation to fraud, in which this paragraph speaks of “increased professional skepticism” regarding the overall conduct of the audit in relation to fraud. This was a conscious decision of the IAASB at the time because risks of fraud are a special case where for example, as part of overall responses to

⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁶ ISRE 2400, *Engagements To Review Financial Statements*

⁷ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁸ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

assessed risks of material misstatement due to fraud, forensic experts may be used that would apply completely different notions of skepticism and evidence.⁹ The question arises whether this exception implies that there are in fact different “levels” of “professional skepticism”, or whether this exception is actually inconsistent with the invariant approach and that therefore this exception ought to be amended. The examples of additional actions prompted by the exercise of professional skepticism in paragraph A33 suggest that it is the actions that are variable and that hence the latter view is correct, rather than the former view of a variable exercise of professional skepticism. This seems to be in line with how the ISAs deal with professional skepticism as described further in paragraphs 16 to 18 below.

16. An invariant concept of professional skepticism implies that the exercise of professional skepticism by auditors does not vary in the circumstances when making professional judgments about the nature, timing and extent of procedures that auditors perform, but that the actual nature, timing and extent of procedures, that auditors judge are necessary given their exercise professional skepticism, would need to vary in the circumstances – i.e., the actions that auditors undertake are context-specific. For example, audit procedures with respect to accounting estimates differ from audit procedures with respect to cash receipts. In this circumstance, the extent to which the exercise of professional skepticism leads to the acceptance or rejection of evidence as being persuasive enough depends upon the context.
17. The ITC provided a simplified paradigm for the application of professional skepticism in a diagram by positing that auditors exercise the attitude of professional skepticism when making professional judgments, and that these judgments prompt actions by the auditor that are then documented.¹⁰ This paradigm implies that, even if the attitude of professional skepticism does not vary, the judgments made and the actions prompted by these do vary in the circumstances – that is, the “levels” needed to deal with different circumstances are embodied in the professional judgments made and actions taken, rather than in the attitude of professional skepticism itself. In other words, professional skepticism causes auditors to adjust their judgments and actions based upon what auditors believe “can go wrong”.
18. Examples of how the ISAs currently address the use of context-specific actions that would result from the exercise of professional skepticism in applying professional judgments include:
 - ISA 240, paragraph A17, in which an auditor’s exercise of professional skepticism may cause the auditor to judge it necessary to corroborate responses to inquiries with other information;
 - ISA 300,¹¹ paragraph A3, in which an auditor exercises care in discussing audit procedures with management as part of audit planning so as to not make audit procedures too predictable;
 - ISA 315 (Revised),¹² paragraph 10, in which the nature, timing and extent of the discussion of

⁹ For a more detailed treatment of the treatment of professional skepticism in IAASB Standards, see Agenda Item 8-D “Supplemental Reference Material – for IAASB Information; Background Information Paper: Current Treatment of the Concept of Professional Skepticism in IAASB and IAESB Standards, the IESBA Code, and the IAASB ITC on Audit Quality”, from the IAASB meeting in September 2016.

¹⁰ IAASB, Invitation to Comment: Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits, p. 13.

¹¹ ISA 300, *Planning An Audit of Financial Statements*

¹² ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

the engagement partner and other key engagement team members in relation to the susceptibility of the entity’s financial statements to material misstatement will depend upon the exercise of professional skepticism by being alert to conditions that may indicate possible misstatement due to fraud or error;

- ISA 330,¹³ paragraph 5, in which the nature, timing and extent of overall responses to address assessed risks of material misstatement at the financial statement level will vary depending upon the auditor’s judgements using professional skepticism about these assessed risks; and
- ISA 500,¹⁴ paragraph 11, in which the auditor needs to determine modifications or additions to audit procedures when evidence from one source is inconsistent with that from another or the auditor has doubts about the reliability of information to be used as audit evidence.

19. The main potential issues with the continued use of an invariant concept of professional skepticism appear to be:

- It appears counterintuitive to those who may not be aware of the meaning of the current definition of “professional skepticism” as a “term of art” and may therefore be basing their views on the concept of “skepticism” as commonly defined (the disposition question and to need evidence about the credibility of information before drawing a conclusion on that credibility) and consequently believe that one needs to be more skeptical (i.e., have a greater such disposition) in some circumstances than others;
- It is inconsistent with the variable approach currently used in most academic literature on professional skepticism; and
- It is inconsistent with the views of those who believe that the concept of professional skepticism ought to represent a continuum of sorts that differentiates among a “presumption of good faith”, a “neutral mindset”, a “questioning mindset”, a “challenging mindset” and “presumptive doubt” (it is actually unclear where a “questioning mindset”, a “challenging mindset” and “presumptive doubt” might be placed relative to one another on such a continuum) – this issue will not be dealt with further in this paper, but in a paper, for subsequent IAASB meeting, that builds on the conclusions of this paper.

Matter for IAASB Consideration

2. Does the IAASB agree with the description of the current invariant approach to professional skepticism? Why or why not? Are there any other important issues with the current invariant approach?

Using Levels of Professional Skepticism, Rather Than the Current Invariant Concept

20. Some respondents suggested that the ISAs ought to apply a variable rather than the current invariant approach to the concept of professional skepticism (see Appendix E to this Agenda Paper). A variable approach to professional skepticism implies that it 1. varies and 2. must vary in relation to something – that is, its variation is not a random occurrence. The question of with what professional skepticism ought to vary given a variable concept depends upon the meaning of professional skepticism and

¹³ ISA 330, *The Auditor’s Responses to Assessed Risks*

¹⁴ ISA 500, *Audit Evidence*

therefore ultimately on what the concept is for (i.e., why the concept is needed in addition to other concepts that already exist in auditing and assurance standards, the Code and the concept of skepticism as commonly defined).

21. The main suggestion set forth by respondents (and found in some academic literature) in relation to with what professional skepticism varies is the risk of material misstatement – in particular, that greater professional skepticism might be required for higher risks of material misstatement. However, this approach appears to be problematic from a conceptual point of view for the following reasons:
- Professional skepticism as a concept was designed to operate on a much broader level than just responses to assessed risk of material misstatement to also cover the basis for risk assessment (the “being alert to conditions which may indicate possible misstatement due to error or fraud” in the current definition). Having professional skepticism vary with the risks of material misstatement appears to limit the application of professional skepticism to responses to risks of material misstatement, which appears to weaken the concept compared to the current definition.
 - A greater likelihood of material misstatement simply leads to responses by the auditor to obtain sufficient appropriate audit evidence to reduce that risk to an acceptably low level (i.e., the greater the risk, the more persuasive the evidence required to address that risk needs to be). It is not clear why a separate concept of professional skepticism is needed at all to address the likelihood of occurrence of risks of material misstatement because this is already covered by the responses of the auditor to obtain sufficient appropriate audit evidence to reduce that risk to an acceptably low level.
 - Professional skepticism as currently defined is also about the auditor’s evaluation of whether the evidence is regarded as sufficient and appropriate (i.e., the “critical assessment of audit evidence” in the current definition). This need to evaluate the persuasiveness of evidence applies regardless of whether more or less persuasive evidence is needed to respond to the risk of material misstatement, even if the work effort involved in evaluating the persuasiveness of the evidence obtained is more likely to be greater for evidence for which it is more difficult to evaluate how persuasive the evidence is. Consequently, the need to evaluate the persuasiveness of audit evidence applies equally regardless of whether a risk of material misstatement is higher or lower. It would therefore be inappropriate to have professional skepticism vary with the risk of material misstatement in this respect.
22. For these reasons, having professional skepticism vary with the risk of material misstatement does not appear to be a fruitful approach for further exploration.

Matter for IAASB Consideration

3. Does the IAASB agree that having professional skepticism vary with the risk of material misstatement does not appear to be worth pursuing further? Why or why not?

23. The question then arises whether it might be useful to have professional skepticism vary with something else, and what the basis for that might be. As noted above, the invariant approach to professional skepticism appears counterintuitive to those who may not be aware of the meaning of the current definition of “professional skepticism” as a “term of art” and may therefore be basing their views on the concept of “skepticism” as commonly defined (the disposition to question and to need

evidence about the credibility of information before drawing a conclusion on that credibility) and consequently believe that one needs to be more skeptical (have a greater such disposition) in some circumstances than others. Seeking to apply a variable approach to professional skepticism on this basis would involve a reconciliation of sorts between skepticism as commonly defined and professional skepticism.

24. A reconciliation between the concepts of skepticism as commonly defined and professional skepticism would not be needed for those parts of the concepts of skepticism and professional skepticism that overlap (respectively: the disposition to question; an attitude that involves a questioning mind). The same applies to that part of the concept of skepticism (to need evidence about the credibility of information before drawing a conclusion on that credibility) essentially covered by the definition of an assurance engagement (“aim to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of users ... about the subject matter information”¹⁵).
25. The application of the common meaning of skepticism would mean that the disposition to question and the need for evidence would vary with the evidence needed to allay existing doubts. The consequence of this approach would be to link professional skepticism to the level of assurance sought and therefore to the level of assurance required to be meaningful to users to meet their needs as described in the first bullet point of paragraph A7 in ISAE 3000 (Revised), which refers both to different levels of limited assurance and to reasonable assurance. Consequently, this approach might have the additional benefit of addressing the suggestion by one regulator respondent to seek to link professional skepticism to user needs. This approach may also provide a basis for supporting a higher level of professional skepticism in relation to potential misstatements due to fraud as currently described in ISA 240, in which special approaches (e.g., forensic procedures) might become necessary in some circumstances. Overall, the implication of this approach would be that professional skepticism varies with the level of assurance sought¹⁶ – that is, the level of professional skepticism is clearly linked to decisions about the sufficiency and appropriateness of evidence (its needed persuasiveness) and hence work effort.
26. For this approach to work the two aspects of professional skepticism (being alert to conditions which may indicate possible misstatement, and the critical evaluation of evidence) not covered by either skepticism as commonly defined need to be reconciled into the model by having these also vary with the level of assurance sought. This would imply the following:
 - *For an engagement for which less assurance is sought (e.g. a review of financial statements), the practitioner would be less alert to conditions which may indicate possible misstatement.* For limited assurance engagements, both ISAE 3000 and ISRE 2400 provide for a consideration of risks of material misstatement that is less deep and hence involves less work effort than the risk assessment required for reasonable assurance engagements under ISAE 3000 or audits under the ISAs, respectively. Consequently, one could argue that by doing less

¹⁵ ISAE 3000, paragraph 12 (a).

¹⁶ This would definitely mean that professional skepticism varies between audits and reviews, and between reasonable and limited assurance engagements under ISAE 3000. It would also mean that professional skepticism would vary among different types of limited assurance engagement under ISAE 3000, since different ranges of meaningful levels of limited assurance are contemplated by ISAE 3000. However, this approach could be agnostic as to whether reasonable assurance varies within audits or within the same types of reasonable and limited assurance engagements under ISAE 3000 – i.e., this latter controversial issue need not be explicitly addressed.

work in relation to the consideration of risks of material misstatement, practitioners are effectively being “less alert” for conditions indicating possible misstatement in limited assurance compared to reasonable assurance engagements. One could also seek argue that the threshold for needing to identify such conditions might be less for a limited assurance engagement, since in a limited assurance engagement one is satisfied with evidence of lesser quality (e.g., the results of inquiry and analysis for reviews) than for reasonable assurance engagements. On the other hand, it could be argued that “alertness” is a difficult concept to subject to a sliding scale and that it could be difficult to justify why and how a practitioner is “more alert” in some circumstances than others. In any case, a move towards a sliding scale of “alertness” would involve some exploration of what it would involve and whether that is desirable.

- *For engagements in which less assurance is sought, the practitioner’s critical evaluation of the persuasiveness of evidence would involve less work effort.* ISAE 3000, the ISAs and ISRE 2400 require the practitioner to evaluate the sufficiency and appropriateness of evidence obtained, but make no distinctions between the levels of assurance. Furthermore, no distinction is made in these standards in relation to the consideration of the persuasiveness of evidence. Practitioners generally obtain less evidence in a limited assurance engagement than in a reasonable assurance engagement, so at first glance the view that less work effort is involved in evaluating the persuasiveness of evidence for limited assurance engagements than reasonable assurance engagements can appear intuitive. Nevertheless, for given evidence, it may be difficult to argue why the work effort to *consider* its persuasiveness ought to be less for limited vs. reasonable assurance engagements and so why this distinction is needed. On the other hand, if a critical *evaluation* of the persuasiveness of evidence is required, one could argue that the nature and extent of such evaluation might depend upon the nature and extent of the procedures applicable in a particular engagement (e.g., primarily inquiry and analysis in a review, as opposed to other procedures), and hence of the level of assurance. However, this would imply that the underlying concept of assurance would be changed from the converse of engagement risk to the risk that audit risk has not been reduced to an acceptably low level (or conversely, the confidence with which an auditor believes that audit risk has been reduced to an acceptably low level).¹⁷ In any case, this would involve a fundamental change to the current audit risk model paradigm. It is unclear what the benefits and costs of such a paradigm shift might involve.
27. Consequently, seeking to introduce a variable concept of professional skepticism would involve reconsideration of the meaning of reasonable assurance and its link to engagement or audit risk so that the concept of assurance is more closely linked to the risk that sufficient appropriate evidence has not been obtained. This would involve fundamental change to the entire audit model (and the model for all assurance engagements). Given the current concept of assurance (the converse of audit or engagement risk), the difficulties in seeking to apply a variable concept of professional skepticism to those parts of the concept beyond the common meaning of skepticism are not easily surmountable. Changing the meaning of assurance represents a conceptual framework type issue that extends far

¹⁷ This would involve changing the concept of assurance to the “meta-probability” that audit risk has been reduced to an acceptably low level. This approach might have some theoretical appeal because the level of assurance would then be linked to the risk that the appropriate level of a primary aspect of audit quality has not been achieved, as opposed to the risk that the financial statements are materially misstated after the completion of the audit.

beyond the mandate of a project seeking to deal with professional skepticism. While further work on the foundations of assurance engagements might be desirable in the very long run, it is unclear what the benefits would be and there would be few, if any, benefits in the short- to medium-term.

28. Furthermore, it is unclear what the incremental benefits would be of introducing a variable concept of professional skepticism in this way, since the current invariant concept already includes variable professional judgments and variable actions prompted by those judgments.

Matter for IAASB Consideration

4. Does the IAASB agree with the analysis of with what professional skepticism might vary and that this leads to conceptual framework type issues that are beyond the mandate of the project on professional skepticism and that the potential benefits of pursuing the issue are questionable given the variable nature of professional judgements and actions under the extant invariant approach? Why or why not?

C. Conclusion

29. The concept of professional skepticism can be clearly delineated from other related concepts in IAASB engagement standards and from the fundamental principles in the IESBA Code and from the concepts of independence therein. Furthermore, based on the current definition of the concept of professional skepticism, the concept plays a central role in assurance engagements, including audits, beyond the other concepts in IAASB engagement standards and the IESBA Code. The concept of professional skepticism as currently defined in IAASB engagements standards goes beyond the common meaning of the term “skepticism”, even though there are some important overlaps between the definitions of professional skepticism and assurance engagements, on the one hand, and skepticism as commonly defined, on the other hand. What distinguishes professional skepticism from skepticism as commonly defined is the need to:
- Be alert to conditions which may indicate possible misstatement, and
 - Perform a critical assessment of evidence.
30. Although there are issues with the continued use of an invariant concept of professional skepticism, it would be very difficult to seek to change the concept to a variable one because of the items in the definition of professional skepticism that go beyond the concept of skepticism that play such an important role in assurance engagements, including audits. It would therefore not be advantageous to seek to weaken the definition of professional skepticism by removing these parts of the definitions or to seek to have them vary. Furthermore, changing to a variable concept of professional skepticism without removing these parts would likely involve fundamental changes to the meaning of assurance, the benefits of which are questionable at this time. For these reasons, the Subgroup believes that pursuing a variable concept of professional skepticism is not in the public interest at this time or in the short to medium-term.
31. For these reasons, the Subgroup recommends that the IAASB not further pursue a variable concept of professional skepticism at this time or in the short to medium-term.

Matter for IAASB Consideration

5. Does the IAASB agree that it is not in the public interest that the variable concept of professional skepticism be pursued at this time or in the short to medium-term? Why or why not? Are there other issues that need to be considered when drawing a conclusion in this matter?

D. Recommendations

32. It should be recognized that that a decision not to further pursue a variable concept of professional skepticism would have implications for the analysis of the other two issues that the Subgroup will focus upon in its further analysis. The Subgroup believes that the analysis of neither of these two issues would have an impact on the analysis in this paper.
33. However, the analysis of the meaning of professional skepticism does indicate that some minor improvements to the definition of professional skepticism might be considered in the public interest, and that better – and in particular, better structured – guidance on the meaning of professional skepticism could be considered. In particular,
- The definition does not specify what about evidence is being critically assessed or evaluated (its persuasiveness), and
 - The guidance does not adequately explain how professional skepticism has an impact on
 - Risk assessment;
 - Risk response;
 - The evidence gathered; and
 - The evaluation of the sufficiency and appropriateness of evidence.

These matters could be undertaken by the planned project on audit evidence (together with professional skepticism).

34. The Subgroup also recommends that the IAASB consider whether it would be in the public interest to communicate with its stakeholders soon and in a more effective manner than in the past about the meaning of professional skepticism in current IAASB engagement standards and why it is simply not “skepticism exercised by a professional”, but involves matters that go beyond what is commonly understood by the term “skepticism”.

Matter for IAASB Consideration

6. Does the IAASB agree with the above recommendations proposed in the public interest? Why or why not? Based on the analysis in this Agenda Paper, are there any other recommendations that the IAASB believes are worthy of consideration?

Appendix A

Excerpt from the Minutes Relating to Professional Skepticism – IAASB December 2016 Meeting

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.

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

The PSWG intends to continue to progress the stakeholder communication publication and update the Board at future meetings.

Appendix B

For Premise 1: Comparison and Analysis of Concept of Professional Skepticism to Other Related Terms in the ISAs

1. There are a number of fundamental terms used in the ISAs for which the concepts represented by those terms appear to have some relationship to the concept of professional skepticism. Some of these terms are defined – others are not. The defined and undefined terms comprise:
 - Audit evidence (and in particular, the undefined term “sufficient appropriate audit evidence”)
 - Audit risk
 - Professional judgment
 - Reasonable assurance
 - The persuasiveness of audit evidence or “persuasive audit evidence”
2. The definitions of the defined terms in ISA 200, including of professional skepticism, are as follows:¹⁸

Audit evidence

Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs:

- (i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.
- (ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.

Audit risk

The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

Professional judgment

The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional skepticism

An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

¹⁸ ISA 200, paragraph 12.

Reasonable assurance

In the context of an audit of financial statements, a high, but not absolute, level of assurance.

3. The current definitions in the ISAs of professional judgment and professional skepticism indicate that these two concepts are quite different, which is in line with the description of the concepts in paragraphs 24 to 27 of the ITC issued by the IAASB in December 2015. Paragraph 17 of ISA 200 provides an indication of the relationship between 3 of the terms above (sufficient appropriate audit evidence, audit risk and reasonable assurance) by using the following wording:

“To obtain *reasonable assurance*, the auditor shall obtain *sufficient appropriate audit evidence* to reduce *audit risk* to an *acceptably low level*...”
4. While this requirement does not equate these terms, it does suggest that audit risk has been reduced to an acceptably low level when sufficient appropriate audit evidence has been obtained, and that reasonable assurance has been obtained when audit risk has been reduced to an acceptably low level. As paragraph 4 of Agenda Item 6-A “ISAE 3000 Assurance Engagements other than Audits or Reviews of Financial Statements—Issues and IAASB Task Force Proposals” from the September 2010 IAASB meeting on the revision of ISAE 3000 notes (and with which the subsequent minutes do not indicate that the IAASB disagreed):

“...the level of assurance obtained is the converse of the reduction in engagement risk, and both of these are an expression of the strength (the combination of sufficiency and appropriateness) of the evidence obtained. Hence, assurance, risk, and evidence are just different perspectives of the same issue.”
5. In this context, a review of the term “persuasiveness of audit evidence” or “persuasive audit evidence” as used throughout the ISAs appears to indicate that the “persuasiveness” of audit evidence refers to the strength (the combination of sufficiency and appropriateness) of the evidence described above.
6. The current definition of professional skepticism defines the concept as **an attitude that includes** the following:
 - A questioning mind,
 - Being alert to conditions which may indicate possible misstatement due to error or fraud, and
 - A critical assessment of audit evidence.
7. On this basis, professional skepticism is not the same as reasonable assurance, the sufficiency and appropriateness or persuasiveness of evidence, or an acceptably low level of audit risk. Rather, based on the current definition, and in particular the reference therein to being alert to conditions which may indicate possible misstatement due to error or fraud, it appears that professional skepticism is an attitude that is exercised in order to enable the auditor to obtain reasonable assurance and sufficient appropriate audit evidence, and reduce audit risk to an acceptably low level. Furthermore, based on the reference in the definition to “a critical assessment of audit evidence”, it could be argued that professional skepticism is used to evaluate whether sufficient appropriate audit evidence has been obtained, and therefore whether audit risk has been reduced to an acceptably low level and consequently reasonable assurance has been obtained. At a more granular level, this would imply that professional skepticism has an important role to play in considering the persuasiveness of audit evidence.

8. The IAASB engagement standards only use the concept of professional skepticism in the IAASB standards applicable to audits, reviews and other assurance – not in the IAASB standards applicable to related services (compilation engagements and agreed-upon procedures engagements). This treatment of professional skepticism within IAASB engagement standards (that is, the restriction of the use of the concept to only assurance engagements) is therefore consistent with the definition of professional skepticism, which relates only to engagements that involve both misstatements and evidence as defined in those standards – i.e., assurance engagements.¹⁹
9. In conclusion, professional skepticism as used in IAASB engagement standards for assurance engagements represents a “term of art”, and the concept of professional skepticism is an attitude that involves:
 - Exercising a questioning mind,
 - Being alert to conditions that may indicate possible misstatements, and
 - Critically assessing evidence.
10. Although the concept of professional skepticism is used to evaluate whether sufficient appropriate audit evidence has been obtained, and therefore whether audit risk has been reduced to an acceptably low level and consequently reasonable assurance has been obtained, the concept can be clearly distinguished from these and other related concepts in the ISAs. In particular, professional skepticism plays an important role in considering the persuasiveness of audit evidence.

¹⁹ This is in line with the conclusion reached for IAASB Standards in Agenda Item 8-D “Supplemental Reference Material – for IAASB Information; Background Information Paper: Current Treatment of the Concept of Professional Skepticism in IAASB and IAESB Standards, the IESBA Code, and the IAASB ITC on Audit Quality”, from the IAASB meeting in September 2016. https://www.iaasb.org/system/files/meetings/files/20160919-IAASB_Agenda_Item_8-D-Professional_Skepticism_Supplemental_Reference.pdf

Appendix C

For Premise 2: Comparison and Analysis of Concept of Professional Skepticism to Fundamental Concepts in the Code

1. The IESBA Code of Ethics contains a number of concepts that may be related to the meaning of professional skepticism or that refer to professional skepticism. These comprise the fundamental principles of the Code and two concepts of independence as follows:²⁰

Fundamental Principles of the Code

- **Integrity** – to be straightforward and honest in all professional and business relationships.
- **Objectivity** – to not allow bias, conflict of interest, or undue influence of others to override professional or business judgments.
- **Professional competence and due care** – to maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- **Confidentiality** – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.
- **Professional Behavior** – to comply with relevant laws and regulations and avoid any action that discredits the profession.

Independence

- **Independence of Mind** – The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
 - **Independence in Appearance** – The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's integrity, objectivity or professional skepticism has been compromised.
2. The concept of professional skepticism is not defined in the current Code and, with one exception (relating to inadequate professional skepticism due to a self-review threat to independence resulting from a firm performing an audit or review of financial statements also providing internal audit

²⁰ IESBA Code of Ethics, paragraph 100.5 (for the fundamental principles) and paragraph 290.6 (for independence). Commensurate definitions of independence in relation to assurance engagements are provided, in paragraph 291.5 of the Code.

services),²¹ is mentioned in the current Code only within the definitions of “independence of mind” and “independence in appearance”. Both this exception and these definitions relate solely to audits and reviews or other assurance engagements – that is, the current Code does not extend professional skepticism to professional accountants that do not perform assurance engagements. The definition of **independence of mind** clarifies that it enables individuals to act with integrity and exercise objectivity and professional skepticism. This means that, based on the current definitions, the Code views independence of mind as a prerequisite for the integrity, objectivity and professional skepticism needed in an assurance engagement.

3. The fundamental principles of the Code, on the other hand, apply to all professional accountants, which implies that these principles also apply to practitioners performing assurance engagements. However, neither the ISAs nor the Code currently address the relationship between the fundamental principles and professional skepticism. The ISAs appear to treat compliance with the fundamental principles and independence as being in addition to, or in parallel to, the exercise of professional skepticism.²²
4. In this context, it is important to recognize that many issues that are often subsumed under the concept of professional skepticism by academic and other literature are actually issues covered by the definitions of the fundamental principles of the Code.²³ For example, based on the definition of **integrity**, some deficiencies in auditor character and personal and cultural attributes may in part be issues related to integrity. Knowingly applying inadequate resources in an audit would also be in part a matter of integrity. Biases (including those resulting from framing, overconfidence, confirmation bias, anchoring, availability, dysfunctional group dynamics, incentives and disincentives) and conflicts of interest would be covered primarily by the definition of **objectivity**. Other deficiencies in auditor attributes may be related to inadequate **professional competence**. The fundamental principles of **confidentiality** and **professional behavior** appear to be less related to the concept of professional skepticism.
5. Even if an auditor has integrity, and is objective and professionally competent, an auditor nevertheless may not be sufficiently diligent in performing the audit. The principle of **due care** is described in the Code as the obligation to act diligently in accordance with applicable and professional standards when performing professional activities or providing professional services.²⁴ The Code describes diligence as encompassing the responsibility to act in accordance with the requirements of the assignment, carefully, thoroughly and on a timely basis.²⁵
6. One of the major results arising from the analysis of responses to the ITC is the finding by the Joint PSWG that respondents identified impediments to the appropriate application of professional skepticism that were closely linked to the fundamental principles in the Code – in particular to

²¹ IESBA Code of Ethics, paragraph 290.196

²² ISA 200 paragraph 14 in connection with ISA 200 paragraph A15, and ISA 200 paragraph 15.

²³ See for example: “Enhancing Auditor Professional Skepticism” by Steven M. Glover and Douglas Prawitt, 2013, pp. 9-17; “Elevating Professional Judgment in Auditing and Accounting: The KPMG Professional Judgment Framework”, KPMG, 2011, pp. 16-21; “A Model and Literature Review of Professional Skepticism in Auditing”, Mark W. Nelson, 2009, pp. 7-9 and 11-15.

²⁴ IESBA Code of Ethics, paragraph 130.1 (b)

²⁵ IESBA Code of Ethics, paragraph 130.4

²⁶ Agenda Item 8-A “Professional Skepticism – Issues (Including Feedback to the ITC) and Joint Working Group’s Preliminary Recommendations on the Proposed Way Forward”, paragraph 25.

objectivity – and to independence of mind. This suggests that the inappropriate application of professional skepticism might actually be indicative of inappropriate application of the fundamental principles of the Code or independence of mind. The fundamental principles and independence are covered in the ISAs, but not in any great detail. The question was posed whether enhancements to the ISAs or accounting firms' methodologies to more specifically address compliance with these fundamental principles and independence of mind could help improve the application of professional skepticism.²⁶

7. In the context of the result that impediments to the appropriate application of professional skepticism appear to lie primarily in inadequate application of the fundamental principles and independence of mind, the question arises why – given the wide-ranging nature and power of the fundamental principles (in particular of integrity, objectivity, professional competence and due care) and of independence of mind – an additional concept of professional skepticism beyond the fundamental principles and independence of mind is needed for assurance engagements at all. What is it about assurance engagements that make them special so that they need an additional concept? What would that concept entail and does the current definition in the ISAs help in this respect?
8. Drawing on the analysis in **Appendix B**, the concept of professional skepticism extends beyond the concepts in the Code because it involves a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence – none of which are covered in the fundamental principles or independence as defined, but are important for the performance of assurance engagements. Consequently, even though the responses to the ITC suggest that the inappropriate application of professional skepticism might actually be indicative of inappropriate application of the fundamental principles of the Code or independence of mind, the concept of professional skepticism applicable to assurance engagements is separate from the concepts in the Code.

²⁶ Agenda Item 8-A “Professional Skepticism – Issues (Including Feedback to the ITC) and Joint Working Group’s Preliminary Recommendations on the Proposed Way Forward”, paragraph 25.

²⁷ Funk and Wagnall’s Canadian College Dictionary, 1989, p. 1257

Appendix D

For Premise 3: Comparison and Analysis of Concept of Professional Skepticism to Professional Skepticism as Commonly Defined

1. Skepticism, other than philosophical skepticism, is defined in dictionaries along the following lines:
 - A doubting or incredulous state of mind; a disbelieving attitude²⁷
 - Doubt as to the truth of some assertion or supposed fact²⁸
 - An attitude of doubt or a disposition to incredulity either in general or toward a particular object²⁹
 - Any questioning attitude or doubt towards one or more items of putative knowledge or belief.³⁰
2. One dictionary provides the following treatment that is helpful in differentiating shades of meaning among some of the synonyms of “doubt” used above to describe the term “skepticism”:

*“Doubt, uncertainty, indecision, skepticism, incredulity, disbelief, suspicion, distrust and misgiving refer to a state of mind that causes suspension of judgment or action. Doubt may be simple uncertainty about facts or truth, but usually combines also indecision about what action to take. Skepticism is a disposition to question, to demand evidence or proof before rendering judgment; it falls short of incredulity, which is unwillingness to believe what seems unlikely, and disbelief, which is the positive rejection of something alleged to be true or valid. We direct suspicion toward that which may be evil or wrong; distrust towards that which may be treacherous or deceitful. Misgiving is doubt about the outcome of an action.”*³¹ [*Underlining not in original, but here for emphasis*]
3. To put these thoughts in another way, it appears that skepticism can be thought of as a disposition (a state or frame of mind) to question (i.e., to have or express uncertainty or doubt) and require evidence before drawing a conclusion. The common understanding of the concept of skepticism appears to turn on the need to obtain evidence to allay uncertainty or doubt.
4. In exploring an understanding of professional skepticism in a particular paper, one audit regulator (the FRC) explored the roots of the meaning of skepticism and drew on philosophical skepticism.³² Without getting into the various philosophical theories of how to deal (or not to deal) with philosophical skepticism, most philosophical discussions about skepticism revolve around various versions of what philosophers call the “standard analysis” of knowledge involving questions about whether knowledge involves “justified true beliefs”. The issue of justification is a central point of contention in these discussions: theories of justification often deal with what “adequate grounds” (i.e. “evidence”) for

²⁷ Funk and Wagnall's Canadian College Dictionary, 1989, p. 1257

²⁸ FRC, Auditing Practices Board, “Professional Scepticism: Establishing A Common Understanding and Reaffirming Its Central Role in Delivering Audit Quality”, March 2012, p. 3, from the Shorter Oxford English Dictionary.

²⁹ Merriam-Webster <https://www.merriam-webster.com/dictionary/skepticism>, May 19, 2017

³⁰ <https://en.wikipedia.org/wiki/Skepticism>, May 19, 2017

³¹ Funk and Wagnall's Canadian College Dictionary, 1989, p. 398

³² FRC, Auditing Practices Board, “Professional Scepticism: Establishing A Common Understanding and Reaffirming Its Central Role in Delivering Audit Quality”, March 2012, p. 3,

justification are.³³ Hence, addressing philosophical skepticism also involves questions about the need for evidence to address that skepticism.

5. In conclusion, both skepticism as commonly defined and understood as well as philosophical skepticism focus, at least in part, on the need to obtain evidence to address doubt. This begs the question as to what evidence is. Broadly speaking, evidence is understood as anything used to support or to undermine an assertion or claim. An assertion or claim is a form of information involving some kind of logical predication, such as “x is a cat”.³⁴ What is it about the information that is being supported or undermined by evidence? Supporting or undermining information essentially means either increasing or decreasing, respectively, the **credibility** (that is, the degree to which something is worthy of belief) of that information. However, properly understood, evidence itself is a form of information (for even the use of “physical evidence” involves some predication about its attributes)³⁵. This means that evidence is information that supports or undermines the credibility of other information. On this basis, it can be argued that skepticism as commonly understood involves the disposition question and need information (evidence) about the credibility of other information before drawing a conclusion on that credibility.
6. The current definition of **professional skepticism** also requires a disposition to question (a questioning mind) and in an assurance engagement, practitioners are required to obtain (sufficient appropriate) evidence prior to reaching a conclusion. However, based upon the definition of professional skepticism, what appears to set assurance engagements and professional skepticism apart from other activities of professional accountants, as well as from skepticism as commonly defined, appears to be:
 - Being alert to conditions which may indicate possible misstatement, and
 - A critical assessment of evidence.
7. The first bullet point goes beyond skepticism as commonly defined by, for example, requiring auditors to be alert for reasons why (i.e., the potential sources) the financial statements may be material misstatements (or as it is put colloquially in extant ISA 315 – “what can go wrong?”). This means that, for example, auditors do not just question, using common skepticism, whether the financial statements are prepared in accordance with the financial reporting framework – auditors must also be alert throughout the audit to the reasons why they might not be so prepared, which would affect the nature, timing and extent of the evidence (through risk assessment and response) that they would seek to obtain before drawing conclusions in relation to those financial statements.
8. The second bullet point appears to go beyond skepticism as commonly defined by clarifying, for example, that auditors are required to critically assess audit evidence. The requirement embodied in this definition begs the question as to what about audit evidence is supposed to be critically assessed. By using the application material in ISA 200 as a basis for further principles-based thinking about the issue, it could be argued that the salient feature of what makes audit evidence important in an audit – its persuasiveness – is what ought to be critically assessed by the auditor.³⁶ Hence, unlike for

³³ See for example, Michael Williams, “Problems of Knowledge”, Oxford University Press, 2001, pp. 15-25. ³⁴ See FEE Issues Paper, “Principles of Assurance”, 2003, pp. 79-80 in connection with pp. 204-208.

³⁴ See FEE Issues Paper, “Principles of Assurance”, 2003, pp. 79-80 in connection with pp. 204-208.

³⁵ See FEE Issues Paper, “Principles of Assurance”, 2003, p. 231-242.

³⁶ See ISA 200, paragraphs A22-A24.

skepticism as commonly defined, when exercising professional skepticism in an audit it is not enough to obtain evidence that supports or undermines the financial statements: auditors must also critically evaluate³⁷ whether the evidence obtained is sufficient and appropriate to reduce audit risk to an acceptably low level and thereby obtain reasonable assurance. This implies that auditors are required to perform procedures as necessary to be able to conclude whether the evidence obtained is persuasive enough (in terms of reliability, relevance and quantity) in the circumstances.

9. Hence, *what sets professional skepticism apart* from skepticism as commonly defined and understood (as well as from philosophical skepticism) is the 1. alertness to the sources of potential misstatements and 2. critical evaluation of whether evidence obtained is as persuasive as it needs to be. The former provides a basis for the application of a questioning mind about the credibility of the contents of the financial statements and helps drive the nature and extent of the evidence obtained (through risk assessment procedures and responses to assessed risks) needed to satisfy the auditor. The result of the latter (the critical evaluation) prompts an auditor to obtain additional evidence when the auditor concludes that the evidence is not as persuasive as it needs to be.
10. Consequently, the meaning of the term “professional skepticism” is NOT the combination of literal meaning of the adjective “professional” and of the noun “skepticism” as commonly defined and understood. Consequently, the term “professional skepticism” as currently defined does not mean “skepticism exercised by a professional (or professional accountant)”, but rather means exercising a questioning mind, being alert to conditions that may indicate possible misstatements, and critically assessing evidence, in an assurance engagement.
11. These points are central to what an assurance engagement is all about: alertness to, and consideration or assessment of risks of, material misstatement, and the need to seek to obtain evidence until the assurance practitioner concludes that the evidence obtained is persuasive enough. For these reasons, professional skepticism as currently defined in IAASB Standards is a crucial additional aspect of assurance engagements beyond skepticism as commonly defined.

³⁷ Since the Clarity Project, the word “assess” has been restricted in the ISAs to assessment of risk, but the definition of “professional skepticism” was never changed to meet this policy. Hereafter, the term “evaluate” is used in line with this policy because the definition of “evaluate” in the Glossary of Terms aligns with the work effort in the ISAs on the sufficiency and appropriateness of evidence.

³⁷ Since the Clarity Project, the word “assess” has been restricted in the ISAs to assessment of risk, but the definition of “professional skepticism” was never changed to meet this policy. Hereafter, the term “evaluate” is used in line with this policy because the definition of “evaluate” in the Glossary of Terms aligns with the work effort in the ISAs on the sufficiency and appropriateness of evidence.

³⁸ Monitoring Group: IAIS, IOSCO; Member Bodies and Other Professional Organizations: AICPA, MAASB, FSR, ICAS

Appendix E

Respondents' Comments to the ITC on Whether There Should Be a More Fundamental Change to the Concept of Professional Skepticism

The following is an extract from the September 2016 IAASB meeting Agenda Item 8-A "Professional Skepticism – Issues (Including Feedback to the ITC) and Joint Working Group's Preliminary Recommendations on the Proposed Way Forward" of respondents' comments to the ITC suggesting that more fundamental changes to the concept of professional skepticism ought to be explored. These comments are relevant to the theme of "levels of professional skepticism".

1. Respondents who supported changing the definition suggested introducing a concept of a questioning mind that would tend to exhibit a more doubting or assertive attitude.³⁸ The words used in the ISAs could change the current confirmatory framework (obtain evidence to support management's assertions) to a framework which leads more to auditors seeking evidence both supporting and disconfirming management's assertions.³⁹
2. One regulator also noted that the definition should be expanded to include:
 - Not only a questioning mind but one that robustly evaluates management's assertions;
 - Not only being alert to the potential for misstatement but also remaining open minded, probing and proactive about the potential for misstatement, notwithstanding past experience and the absence of manifest indicators of that potential having been realized;
 - Not only a critical appraisal of the evidence that management presents but also subjecting it to robust challenge through comparison with other relevant available sources of evidence whether those contradict or corroborate management's position.
3. Many respondents noted some change could be enacted through modifications to current ISAs. However, other respondents called for a more fundamental change to the concept of professional skepticism,⁴⁰ which may change the current model of an audit. The three most prevalent calls for action related to:
 - A change to a starting point to be a doubting mindset (sometimes referred to as "presumptive doubt");
 - A requirement to actively seek out contradictory evidence; and
 - Applying a continuum of professional skepticism that increases commensurate with the assessed risks of material misstatement.

³⁸ Monitoring Group: IAIS, IOSCO; Member Bodies and Other Professional Organizations: AICPA, MAASB, FSR, ICAS

³⁹ Monitoring Group: BCBS, IAIS

⁴⁰ Monitoring Group: BCBS, IAIS, IOSCO; Investors: IA; Regulators and Audit Oversight Authorities: ESMA, UKFRC; Member Bodies and Other Professional Organizations: AICPA; Academics: Glover-Prawitt

4. Some respondents believed the IAASB should explore whether the ISAs should more explicitly set out the concept of professional skepticism as a continuum,⁴¹ rather than as an invariant concept. These respondents noted that the degree of professional skepticism throughout the audit might vary with risk identified and the professional judgments that were likely to be required (e.g., when auditing complex financial instruments or accounting estimates or other areas typically assessed as higher risks of material misstatement) – with linkage to the evidence that was expected to be obtained.
5. For example, as the risk of, and opportunity for, management reporting bias increases, there should be heightened professional skepticism and heightened skeptical actions taken by the auditor. The standards should incorporate the logic of a skepticism continuum that links higher levels of risk of material misstatement to more skeptical mindset and skeptical actions. The continuum would recognize that it is always important to have a questioning mind, but would clarify when the auditor should apply more or less of a challenging mindset and skeptical action.⁴²
6. There were also respondents who noted the link between professional skepticism and risk assessment without explicitly referencing to a continuum.⁴³ A suggestion was made to link risk assessment and obtaining audit evidence more explicitly and in doing so give more prominence to paragraph A33 of ISA 240, which acknowledges ways in which increased professional skepticism can be exercised as part of the overall response to address the assessed risks of material misstatement due to fraud, as well as when more or less audit evidence may be obtained as a result of the auditor's assessment of risk. It was suggested to further clarify whether different "levels" of professional skepticism may be applied, and how this would relate to the current description of professional skepticism as an "attitude" or "mindset."⁴⁴

⁴¹ Regulators and Audit Oversight Authorities: ESMA; NSS: MAASB; Public Sector: GAO; Accounting Firms: PwC; Member Bodies and Other Professional Organizations: CAQ, FEE; Academics: AAA, Glover-Prawitt

⁴² Member Bodies and Other Professional Organizations: AICPA, CAANZ, CAQ; Academics: Glover-Prawitt

⁴³ Member Bodies and Other Professional Organizations: ICAS

⁴⁴ Accounting Firms: KPMG