



Professional Skepticism

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Agenda Item 9

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IAASB

International Auditing
and Assurance
Standards Board

Objectives of the Discussion

To:

- Obtain the Board's approval for publishing the PSWG publication – Professional Skepticism – Strengthening the Pillars: Observations of the IAASB-IAESB-IESBA Professional Skepticism Working Group; and
- Obtain the views of the IAASB on the premises, analysis, conclusions and recommendations related to an invariant vs. variable concept of professional skepticism.

Professional Skepticism Publication

- Development of a Joint Professional Skepticism Stakeholder Publication
 - Aimed at giving prominence to the work of the PSWG, individually, and in coordination between the three standard-setting boards
 - Prepared by PSWG members and staff of the IAASB, IAESB, and IESBA
 - Includes three major components:
 - 1) Key observations to-date of the PSWG as a result of their discussions and outreach
 - 2) SSB actions taken to-date and planned actions for the future
 - 3) The roles other stakeholders can play in enhancing professional skepticism
- **The IAASB is asked provide views on whether there would be objections to the release of the Professional Skepticism Joint Stakeholder Publication**

Professional Skepticism Publication – IESBA and IAESB Feedback

- Both IESBA and IAESB supported the issuance of the PSWG publication
- High-level perspectives and views shared at the IESBA and IAESB:
 - Both boards have some changes to their discrete sections addressing their own forward agendas
 - Perspective from some individual members about making the possible application of the concept of PS stronger
 - View that the document, in certain places, looks too audit focused but recognition that it is telling the story of the initiative

Professional Skepticism: Other Issues

- At the December 2016 IAASB meeting, the IAASB Subgroup reported that it would begin analyzing the implications and potential unintended consequences of one or more of the changes to the concept of PS suggested by respondents to the ITC **1)** A shift from a questioning mindset to a more challenging mindset or potentially to presumptive doubt; **2)** A requirement to seek out contradictory evidence; and **3)** Introducing a concept of levels of professional skepticism rather than the current invariant approach
- The IAASB Subgroup believes that the issue of whether there ought to be levels of professional skepticism is a central issue that may impact the analysis of the other two issues
- For this reason, the IAASB Subgroup chose to analyze this issue first
- The Subgroup prepared a paper with analysis of the issue of levels of PS

Professional Skepticism: Paper Analyzing Issue of Levels of PS

- The paper seeks to achieve the following:
 - Distinguish the concept of PS from other concepts in the ISAs and Code
 - Highlight that PS is a “Term of Art”; it does not mean “skepticism exercised by a professional (or professional accountant)”
 - Explain what makes it important to audits and assurance engagements
 - Distinction between a “*variable* and *invariant* concept of professional skepticism” can be misunderstood given the context-specific variations in judgments and actions.
 - We should probably speak of “an *invariant* attitude prompting *context-specific* judgments and actions (and documentation)”.
 - Provide examples for context-specificity

Professional Skepticism: Paper Analyzing Issue of Levels of PS (cont.)

- Analyze the potential logical implications of moving from an invariant to a variable *attitude*
- Provide conclusions and recommendations to the Board based on that analysis
- The paper does not claim that the concepts in the ISAs and the Code are not applied in an integrated manner in practice throughout the audit process
- The paper does not claim that attitude, risk assessment and professional judgement are independently applied



Professional Skepticism – Premise 1

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.

Professional Skepticism – Premise 2

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.

Professional Skepticism – Premise 3

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 (*the attitude of*) professional skepticism? Why or why not?

Matter for IAASB Consideration

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

Matter for IAASB Consideration

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

Matter for IAASB Consideration

4. Does the IAASB agree with the analysis of with what (**the *attitude of*** 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 judgments and actions under the extant invariant approach?** Why or why not?

Matter for IAASB Consideration

5. Does the IAASB agree that it is not in the public interest that the variable concept of (*the attitude 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?

Recommendations

1. Consider minor improvements to the definition of professional skepticism along with more structured guidance on what professional skepticism means in a future project related to Audit Evidence.
2. 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?



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