

Professional Skepticism—Issues and Recommendations: “Mindset” Concepts and Wording

Objective of the Agenda Item

To obtain the views of the IAASB on the Professional Skepticism IAASB Subgroup¹ (the Subgroup) conclusions and recommendations related different “mindset” concepts of professional scepticism and the use of words in the ISAs in this respect.

A. Introduction – Issues of Focus and Issues Dealt With Thus Far

1. Based on the Issues Paper provided to the IAASB in its September 2016 meeting², 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.³ 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. In line with the views of the IAASB expressed in its December 2016 meeting, the Subgroup is focusing its 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.
3. 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,⁴ the Subgroup had concluded that these three themes are interlinked. Furthermore, these themes are conceptually challenging. For these reasons, as a first step the Subgroup sought to provide an analysis to the IAASB for further discussion of the central issue: whether an invariant or variable concept of the attitude of professional skepticism (“levels of the attitude of professional

¹ The IAASB representatives of the PSWG form the PSWG IAASB Subgroup (the Subgroup) and this Subgroup focuses on addressing those issues that directly impact the IAASB and its projects. This paper represents discussions of that Subgroup. Members of the Subgroup include Annette Köhler (Chair, supported by Wolf Böhm, Technical Advisor), Chuck Landes, and Susan Jones. The Subgroup held one teleconference in developing the material for this Agenda Item.

² 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>

³ Agenda Item 5-A “Professional Skepticism Presentation”, December 2016 meeting of the IAASB.
<https://www.iaasb.org/meetings/new-york-usa-14>

⁴ 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>

skepticism”) is appropriate. The resolution of this theme would also have an impact on how the other two themes ought to be analyzed thereafter.

4. To this effect, in the IAASB meeting of June 2017 the Subgroup submitted an issues paper⁵ that sought to obtain the views of the IAASB on the premises, analysis, conclusions, and recommendations of the Subgroup related to an invariant vs. variable concept of professional skepticism. A summary of the premises, conclusions and recommendations of the June 2017 paper is provided in Appendix B to this issues paper.
5. The following extract of the minutes of the June 2017 meeting of the IAASB summarizes the views of the IAASB with respect to the June 2017 issues paper:

“The Board also discussed the concept of levels of professional skepticism and other related matters set out in Agenda Item 9–A. While some Board members expressed concern with several of the matters set out in the issues paper, such as referring to the current concept of professional skepticism as “invariant”, because the actions that auditors take in applying professional skepticism vary, the Board agreed with the recommendations of the PS IAASB Subgroup not to introduce the concept of “levels” for the attitude of professional skepticism into the ISAs. Some Board members agreed with the recommendation to better communicate the concept of professional skepticism to stakeholders as described in Agenda Item 9–A.”⁶

6. The approved minutes of the IAASB’s discussion on this topic at its June 2017 meeting are provided in Appendix C to this issues paper.
7. The IAASB therefore agreed with the Subgroup’s conclusions that the concept of “levels” for the attitude of professional skepticism should not be pursued further, while recognizing that the actions and documentation that practitioners performing assurance engagements would undertake in applying professional skepticism would vary in the circumstances (i.e., are context-specific).
8. As the next step in its analysis, the Subgroup is submitting this issues paper that deals with whether it is appropriate to change the “mindset” concept of professional skepticism from an attitude involving a “questioning mind” to one involving a more “challenging mind(set)” or “presumptive doubt”.

B. Analysis of “Mindset” Concepts

Respondent suggestions with respect to “mindset” concepts and possible reasons therefor

9. Appendix D to this issues paper contains 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. In particular, respondents to the ITC addressed the following alternative “mindset” concepts for professional skepticism:
 - A “doubting mindset” or “presumptive doubt”
 - A “challenging mindset”, or to have a predisposition to challenge management.

⁵ Agenda Item 9-A “Professional Skepticism – Issues and Recommendations, June 2017 meeting of the IAASB. <http://www.iaasb.org/meetings/new-york-usa-15>

10. Those respondents suggesting a change to the “mindset” concept of professional skepticism are addressing a fundamental change in the definition of professional skepticism. The current definition of professional skepticism in the ISAs is:

“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.”⁷

11. Changing the “mindset” concept of professional skepticism therefore means changing reference in the definition to a “questioning mind” to another concept.

Presumptive doubt

12. As noted above, some respondents suggest that the concept of professional skepticism ought to be changed to one involving “presumptive doubt”. The concept of “presumptive doubt” exists in philosophy (epistemology), where it forms the basis for the concept of philosophical skepticism and theories of justification. At variance with this usage is its use in some academic auditing literature, but with different definitions. In accordance with common English usage in dictionaries, the word “doubt” relates to uncertainty or lack of belief or acceptance about truth, facts, validity or reliability, and usually connotes some indecision. The term “presumptive” means affording reasonable grounds for belief or based on a presumption (which in turn means to assume to be true until disproved). The term “presumptive doubt” therefore implies a stance in which doubt (uncertainty or lack of belief or acceptance about truth, facts, validity or reliability) is presumed unless there are reasonable grounds for the contrary.
13. The main conceptual issue with presumptive doubt is the need to relate presumptive doubt to some specific matters (specific information, evidence or statements) for it not to be general. General presumptive doubt (that is, the stance that presumes uncertainty or lack of belief or acceptance about truth, facts, validity or reliability about every matter) by design necessarily involves “infinite regress”. and is equivalent to philosophical skepticism Infinite regress means that every matter would be presumed to be doubtful unless there are reasonable grounds (some form of evidence in the widest sense of the term) to overcome the presumption, but those reasonable grounds (some form of evidence) in turn would also be subject to the same presumptive doubt, and so forth. Hence, general presumptive doubt leads to a “dead-end” from an auditing point of view, since an audit could never be completed if general presumptive doubt were to be applied. Consequently, changing the concept of professional skepticism to encompass the concept of general presumptive doubt is unviable.
14. Nevertheless, presumptive doubt theoretically could be applied to very specific matters. It should be noted that at a conceptual level, the ISAs already require presumptive doubt for the assertions in the financial statements because the ISAs require the auditor to obtain sufficient appropriate audit evidence to form an opinion on those financial statements (i.e., the auditor cannot assume that the assertions in the financial statements are “true” without obtaining evidence to support them). Another example of the application of specific presumptive doubt is in ISA 580,⁸ which clarifies that written representations can only be used to support other audit evidence or to confirm certain matters, which implies that the ISA 580 applies presumptive doubt to management representations in that they never

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(l)

⁸ ISA 580, *Written Representations*, paragraph 7.

constitute sufficient appropriate audit evidence without other audit evidence to overcome that doubt. A further example of the use of specific presumptive doubt in the requirements of the ISAs is in ISA 315 (Revised),⁹ in which auditors are required to evaluate the design of controls relevant to the audit and to determine their implementation by performing procedures in addition to inquiry of the entity’s personnel. In this case, the ISA 315 (Revised) applies presumptive doubt to inquiries of the entity’s personnel when auditors perform procedures to evaluate the design of controls relevant to the audit and to determine their implementation by requiring procedures beyond such inquiry.

15. However, applying such specific presumptive doubt can only be done on in relation to very specific matters in the auditing standards (i.e., for a particular definition, requirement or item of application material) so that the presumptive doubt does not become too general. Since the concept of professional skepticism is pervasive to all aspects of performing an audit (from planning through to risk assessment, risk response, and evaluating evidence), incorporating presumptive doubt into the definition of professional skepticism would effectively make such presumptive doubt general, rather than specific, which is, as noted above, unviable.
16. In effect, whenever the IAASB includes a requirement to obtain evidence with the view to meeting some objective, the IAASB is applying specific presumptive doubt with respect to the matter for which the evidence is to be gathered. Adding wording about specific presumptive doubt to such requirements is unlikely to further assist auditors in the execution of those requirements. Furthermore, the exercise of a “questioning mind” and to evaluate audit evidence under the current definition of professional skepticism means that auditors need to consider whether they ought to doubt certain matters in specific circumstances. In any case, the concept of presumptive doubt does not appear to be helpful in seeking to answer the key question in relation to when audit evidence obtained is sufficient and appropriate (that is, when can the auditor cease doubting or suspending judgment).
17. For these reasons, it does not appear necessary to incorporate language into the ISAs that deals with specific presumptive doubt: it is already covered through requirements and guidance and the concept of professional skepticism as such and conceptually it does not appear to be helpful to improving the quality of the ISAs.

Conclusion 1

The concept of general presumptive doubt is an interesting philosophical concept, but the application of that concept is unviable in an audit context. This implies that presumptive doubt cannot be incorporated into the definition of professional skepticism.

At a theoretical level, the concept of specific presumptive doubt can, and is, being applied in the ISAs for specific matters. However, adding the concept to the wording of the ISAs for specific matters does not appear to be helpful to improving the quality of the ISAs because the concept is effectively already being covered through requirements and guidance in the ISAs and the incorporation of such wording is unlikely to further assist auditors in applying those requirements.

⁹ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 13.

“Challenging mind(set)”

18. Another suggestion by respondents to the ITC included changing the concept of professional skepticism from a “questioning mind” to a “doubting mindset” or “challenging mind” or “challenging mindset”. These calls were often accompanied by suggestions to have auditors “challenge management”.
19. The first issue that needs some clarification is the use of the term “mindset” rather than “mind”, which appear to be used interchangeably by some. Definitions of the term “mindset” outside of psychology (where the definition is used specifically in relation to beliefs about one’s own ability) include:
- “A set of assumptions, methods, or notations held by one or more people or groups of people.”¹⁰
- “1. A mental attitude or inclination. 2. A fixed state of mind.”¹¹
- “A person’s way of thinking and their opinions.”¹²
- “The established set of attitudes held by someone”¹³
- “If you refer too someone's mindset, you mean their general attitudes and the way they typically think about things.”¹⁴
20. In contrast, the relevant definitions of “mind” include:
- “A way of thinking or feeling; mental disposition; temper.”¹⁵
- “A particular way of thinking, influenced by a person's profession or environment.”¹⁶
- “If you have a particular type of mind, you have a particular way of thinking which is part of your character, or a result of your education or professional training.”¹⁷
21. There seems to be considerable overlap between the meanings of the two words, but the word “mind” has many more definitions associated with it. On the other hand, the relevant definitions of “mindset” appear to be closer to what the ISAs are trying to express given the reference to the influence of the profession and environment in two of the definitions. On the whole, the words can probably be used interchangeably, but it might be helpful for translation purposes (any difference between the two terms is very likely to be lost in translation) that the ISAs stick to one term. Since the ISAs currently use the term “questioning mind”, the Subgroup suggests that we not change the term and consistently use the term “mind” in IAASB pronouncements and agenda papers.
22. The second issue requiring attention is the difference between “questioning” and “challenging”. The relevant definitions of the verb “question”, of which “questioning” is the adjective, are as follows:

¹⁰ <https://en.wikipedia.org/wiki/Mindset>, 14 October 2017

¹¹ <https://www.merriam-webster.com/dictionary/mind-set>, 14 October 2017

¹² <http://dictionary.cambridge.org/us/dictionary/english/mindset>, 14 October 2017

¹³ <https://en.oxforddictionaries.com/definition/mindset>, 14 October 2017

¹⁴ <https://www.collinsdictionary.com/us/dictionary/english/mindset>, 14 October 2017

¹⁵ Funk & Wagnalls Canadian College Dictionary, 1989, p. 861.

¹⁶ <https://en.oxforddictionaries.com/definition/mind>, 14 October 2017

¹⁷ <https://www.collinsdictionary.com/us/dictionary/english/mind>, 14 October 2017

“To be uncertain of; doubt. To make objection to; challenge; dispute”¹⁸

“If you question something, you express doubt or uncertainty about it.”¹⁹

“Feel or express doubt about; raise objections to.”²⁰

“If you question something, you have or express doubts about whether it is true, reasonable, or worthwhile.”²¹

“Characterized by or indicating intellectual curiosity; inquiring.”²²

“Showing a feeling of doubt or a desire to ask a question in order to get information”²³

Overall, then, questioning relates to uncertainty, doubt, objections, challenging, disputing, and inquiring. In the context of the ISAs a **questioning mind** could be thought of as a particular way of thinking or mental disposition, as a result of character, professional training or environment, involving uncertainty, doubt, objection, challenge, disputation, or inquiry. This is a broad description, but it seems to get across what a “questioning mind” in the ISAs involves.

23. As noted above in the section on “presumptive doubt”, the word “doubt” relates to uncertainty or lack of belief or acceptance about truth, facts, validity or reliability, and usually connotes some indecision. The question arises whether, in rough alignment with a suggestion to move to a “doubting mindset”, changing a “questioning mind” to “doubting mind” would be helpful. The substitution of the words “doubt” and “mind” with their meanings would lead to a concept about a particular way of thinking or mental disposition, as a result of character, professional training or environment, involving uncertainty or lack of belief or acceptance about truth, facts, validity or reliability. While this shows there is considerable overlap between the two concepts, “doubting mind” does not cover concepts like objection, challenge, disputation and inquiry. Furthermore, because a questioning mind covers “doubt”, all of the definition of “doubting mind” is subsumed within the definition of questioning mind. For these reasons, the concept of a “questioning mind” appears to be superior to that of a “doubting mind” and therefore the definition of professional skepticism should not be changed to include “doubting mind” rather than “questioning mind”.
24. The other major suggestion from respondents is to change “questioning mind” to “challenging mind(set)” with the accompanying suggestion to have the ISAs “challenge management”. The relevant definitions of the word “challenge” include:

“To demand defiantly. To call into question; dispute.”²⁴

“To take exception to; call in question.”²⁵

¹⁸ Funk & Wagnalls Canadian College Dictionary, 1989, p. 1104

¹⁹ <http://dictionary.cambridge.org/us/dictionary/english/question>, 14 October 2017

²⁰ <https://en.oxforddictionaries.com/definition/question>, 14 October 2017

²¹ <https://www.collinsdictionary.com/dictionary/english/question>, 14 October 2017

²² <http://www.dictionary.com/browse/questioning>, 14 October 2017

²³ <http://learnersdictionary.com/definition/questioning>, 14 October 2017

²⁴ Funk & Wagnalls Canadian College Dictionary, 1989, p. 226

²⁵ <http://www.dictionary.com/browse/challenging>, 14 October 2017

“To dispute especially as being unjust, invalid, or outmoded.”²⁶

“To express or represent doubt about the truth of something.”²⁷

“A calling into question; a demanding of proof, explanation.”²⁸

“Dispute the truth or validity of.”²⁹

25. Hence, the word “challenge” involves calling into question, disputing, taking exception to, or doubting the truth or validity of something, perhaps by demanding proof or explanation. There appears to be considerable overlap between the definitions of “questioning” and “challenging”, but “challenging” appears to focus more on disputation, whereas “questioning” appears to encompass a broader set of notions around uncertainty, doubt, objection, challenge, disputation, or inquiry. Furthermore, based on the definitions it could be argued that “challenging” is just a more severe form of “questioning” and that therefore “questioning” encompasses “challenging” when a more severe form of questioning is appropriate. On this basis, it appears that using “questioning” rather than “challenging” together with “mind” sets forth a broader set of attitudes and actions than just using “challenging”.
26. Based on discussions with a number of individuals that are, or have been, involved in auditing standard setting or professional education of auditors in a number of European³⁰ and a few Asian countries,³¹ the difference between “challenging” and “questioning” will likely get “lost in translation” within a number of major European languages (that are also spoken in large parts of North Africa and Latin America) and at least one Asian country representing a language widely used in China South-East Asia because the verb “to challenge” translated literally engenders visions of auditors “challenging” management to “duels”, using other inappropriate (physical) means or provoking management to make inquiries of management. A change in the ISAs to “challenging mind” will therefore likely mean that no change will take place upon translation in a fairly large number of important languages and hence jurisdictions.
27. Consequently, for the two reasons explained above (“questioning” sets forth a broader set of attitudes and actions than “challenging”, and a change to “challenging” from “questioning” is likely to be “lost in translation”), the Subgroup believes that the ISAs should retain the term “questioning mind”, rather than to move to “challenging “mind”.

²⁶ <https://www.merriam-webster.com/dictionary/challenge>, 14 October 2017

²⁷ <http://dictionary.cambridge.org/us/dictionary/english/challenge>, 14 October 2017

²⁸ <https://www.collinsdictionary.com/us/dictionary/english/challenge>, 14 October 2017

²⁹ <https://en.oxforddictionaries.com/definition/challenge>, 14 October 2017

³⁰ Responses were received from the following countries in Europe: Spain (for Spanish), France (for French), Germany (for German), the Netherlands (for Dutch/Flemish), Italy (for Italian), Romania (for Romanian) and Poland (for Polish). With the exception of the response from the Netherlands for Dutch/Flemish, all of the European respondents indicated that changing the wording to “challenging mind” in the definition would not lead to a change in their current translation of “questioning mind”, because the literal translation of the word “challenging” would be inappropriate in their language context. It should be noted that the response from Spain for Spanish is likely to apply to Spanish-speaking Latin America, France for French to French-speaking Wallonia (Belgium), Switzerland and North Africa, Germany for German to German-speaking Austria and Switzerland, and Italy for Italian to Italian-speaking Switzerland.

³¹ Responses were received from Japan for Japanese and China for Mandarin. The Japanese response suggests that they can deal with a change in the translation from “questioning mind” to “challenging mind” (but may technically disagree with such a change), whereas the Chinese response indicates that such a change may cause difficulties in translation.

Conclusion 2

The current concept of the attitude of professional skepticism involving a “questioning mind” in the definition of professional skepticism continues to be appropriate and it is therefore in the public interest that it be retained, rather than being replaced by other concepts suggested by some respondents to the ITC, such as “doubting mindset” or “challenging mind(set)”.

For this reason and to avoid confusion among users and in translation, IAASB assurance pronouncements and agenda papers should refer to “questioning mind” in a professional skepticism context, rather than to the words “doubting mindset” or “challenging mind(set)”.

C. The Use of the Term “Challenge”

28. As noted in paragraph 18, above, suggestions by respondents to the ITC to change the concept of professional skepticism from a “questioning mind” to a “doubting mindset” or “challenging mind” or “challenging mindset” were often accompanied by suggestions to have auditors “challenge management”.
29. Also as noted above, the difference between “challenging” and “questioning” will likely get “lost in translation” within a number of major European languages (that are also spoken in large parts of North Africa and Latin America) and one language spoken in China and parts of South-East Asia because the verb “to challenge” translated literally engenders visions of auditors “challenging” management to “duels” or using other inappropriate (physical) means to make inquiries of management and will therefore not be translated in its literal sense. The question arises whether in circumstances where the IAASB believes it would be appropriate that the ISAs refer to a more severe form of questioning (such as when the auditor believes that evidence provided by management is clearly inadequate or subject to differing interpretation, for example for certain assumptions supporting accounting estimates), terms other than “challenging” could be used, such as “calling into question”, “disputing” or “taking exception to”, etc., which would be more precise and not suffer from the difficulties in translation associated with “challenge”.
30. The IAASB may wish to consider whether it is helpful to use the term “challenge” in relation to management or other matters when other terms may be more precise and cause less difficulty upon translation.

Conclusion 3

The IAASB ought to consider the use of terms other than “challenge” that are more precise in relation to management or other matters due to difficulties in translating the term “challenge”.

D. Subgroup Overall Conclusions and Recommendations

Subgroup Overall Conclusions

1. Based on its analysis, the Subgroup has concluded that that the current concept of the attitude of professional skepticism involving a “questioning mind” continues to be appropriate and that it is therefore in the public interest that it be retained in the definition of professional skepticism, rather than being replaced by other concepts suggested by some respondents to the ITC.
2. To avoid confusion among users and in translation, IAASB assurance pronouncements and agenda papers should continue to refer to “questioning mind” in a professional skepticism context, rather than to a “doubting mindset” or “challenging mind(set)”

Subgroup Recommendations

Based on its analysis and conclusions, the Subgroup has the following recommendations in the public interest:

1. Not to further pursue an exploration of the concepts of “presumptive doubt” or “challenging mind(set)”
2. To continue to use the term “questioning mind” in the definition of professional skepticism and in IAASB assurance pronouncements and IAASB agenda papers, rather than “doubting mindset” or “challenging mind(set)”
3. Since the problems with the application of professional skepticism do not appear to arise from the current wording of its definition, but with the execution of the concept, in line with the recommendations in the issues paper on “levels of professional skepticism”, to enhance the application of the concept by providing more guidance in the ISAs on how a professional skepticism, and in particular, a questioning mind, has an impact on
 - Risk assessment;
 - Risk response;
 - The evidence gathered; and
 - The evaluation of the sufficiency and appropriateness of evidence.
4. Use the analysis of the meaning of the term “questioning mind” in this paper as a basis for the development of application material in the ISAs to help explain the concept of “questioning mind” in relation to professional skepticism.
5. To consider whether more precise terms than “challenge” can be used when seeking to express a more severe form of questioning due to the difficulties involved in the translation of the word “challenge”.

Matter for IAASB Consideration

- 1) Does the IAASB agree with the overall conclusions and recommendations of the Subgroup regarding the “mindset concepts” and the use of wording in IAASB assurance standards and Agenda Papers? Why or why not?

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.

Premises, Conclusions, and Recommendations of the Issues Paper³² on Levels of Professional Skepticism from June 2017 IAASB Meeting

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.

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 [because otherwise a separate concept of professional skepticism would not be needed].

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 [as currently defined] 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.

Conclusions

The Subgroup believes that pursuing a variable concept of [the attitude of] professional skepticism is not in the public interest at this time or in the short to medium-term. For these reasons, the Subgroup recommends that the IAASB not further pursue a variable concept of [the attitude of] professional skepticism at this time or in the short to medium-term.

Recommendations

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).

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”.

June 2017 IAASB Approved Meeting Minutes

Prof. Köhler provided the Board with an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup (PS IAASB Subgroup) since the last Board meeting in March 2017.

The Board supported the release of the Joint Professional Skepticism Publication in Agenda Item 9-B to update stakeholders about the actions and current status of the PSWG's work. Board members offered several suggestions to improve the document.

The Board also discussed the concept of levels of professional skepticism and other related matters set out in Agenda Item 9-A. While some Board members expressed concern with several of the matters set out in the issues paper, such as referring to the current concept of professional skepticism as "invariant", because the actions that auditors take in applying professional skepticism vary, the Board agreed with the recommendations of the PS IAASB Subgroup not to introduce the concept of "levels" for the attitude of professional skepticism into the ISAs. Some Board members agreed with the recommendation to better communicate the concept of professional skepticism to stakeholders as described in Agenda Item 9-A.

PIOB OBSERVER REMARKS

Mr. van Hulle underlined the historical event of the release of a document agreed between the three Boards and commended the IAASB on this. He noted that one important aspect related to this topic, although not addressed in Agenda Item 9-A, is the behavioral aspect of professional skepticism, and the fact that the auditor's starting point should be an "open mind." He noted that when audit failures occur, there is generally criticism around the auditor's lack of professional skepticism. However, those criticisms could actually be highlighting that there were other factors involved that affected the auditor's behavior, such not starting with an open mind. He encouraged the Board to further explore the behavioral aspect of professional skepticism further.

WAY FORWARD

The PSWG intends to publish the professional skepticism publication in Quarter 3, 2017. The PS IAASB Subgroup intends to analyze the remaining two potential fundamental changes to the concept of professional skepticism within the ISAs and present its findings at a future Board meeting.

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.³³ 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.³⁴
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,³⁵ 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.

³³ Monitoring Group: IAIS, IOSCO; Member Bodies and Other Professional Organizations: AICPA, MAASB, FSR, ICAS

³⁴ Monitoring Group: BCBS, IAIS

³⁵ 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,³⁶ 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.³⁷
6. There were also respondents who noted the link between professional skepticism and risk assessment without explicitly referencing to a continuum.³⁸ 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."³⁹

³⁶ 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

³⁷ Member Bodies and Other Professional Organizations: AICPA, CAANZ, CAQ; Academics: Glover-Prawitt

³⁸ Member Bodies and Other Professional Organizations: ICAS

³⁹ Accounting Firms: KPMG