

Professional Skepticism—Issues and Recommendations: Requirement to Seek Contradictory Evidence

Objective of the Agenda Item

To obtain the views of the IAASB on the Professional Skepticism IAASB Subgroup¹ (the Subgroup) conclusions and recommendations related to a requirement to seek contradictory evidence as part of the concept of professional skepticism.

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

1. At the December 2016 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
2. In line with the views of the IAASB expressed in its December 2016 meeting (see the approved minutes of that meeting in Appendix A to this issues paper), 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;
 - “Mindset” Concepts of Professional Skepticism and the Use of Wording; and
 - Variable vs. Invariant Concept of the Attitude of Professional Skepticism

Variable vs. Invariant Concept of the Attitude of Professional Skepticism

3. At the IAASB meeting in June 2017 the Subgroup submitted an issues paper³ that sought to obtain the views of the IAASB related to an invariant vs. variable concept of professional skepticism. The IAASB agreed with the Subgroup’s conclusions that the concept of “levels” for the attitude of professional skepticism should not be introduced into the ISAs, 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).
4. A summary of the premises, conclusions and recommendations of the June 2017 paper and approved minutes of the IAASB’s discussion on this topic are provided in Appendices B and C to this issues paper, respectively.

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 and member until December 2017, supported by Wolf Böhm, Technical Advisor), Chuck Landes (chair as of January 2018), and Susan Jones. Kai-Uwe Marten joined the Subgroup in 2018 (supported by Wolf Böhm, Technical Advisor). The Subgroup held one teleconference in developing the material for this Agenda Item.

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

“Mindset” Concepts of Professional Skepticism and the Use of Wording

5. At the December 2017 meeting, the Subgroup submitted an issues paper⁴ 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”, and with the use of words in IAASB pronouncements in this respect. The IAASB agreed with the Subgroup’s conclusion that the attitude of professional skepticism as involving a “questioning mind” continues to be appropriate, but issues of terminology were not resolved, even if, as a result of the discussion, the Board is more sensitive to the use of certain terms.
6. The conclusions and recommendations of the December 2017 paper and the approved minutes of the IAASB’s discussion on this topic are provided in Appendices D and E to this issues paper, respectively.

B. Analysis of a requirement to seek contradictory evidence as part of the concept of professional skepticism

Respondent Suggestions With Respect to a Requirement to Seek Contradictory Evidence

7. Appendix F 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 in some way that contradictory or disconfirming evidence be sought. Some of these suggestions include that the ISAs:
 - 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;
 - Not only require 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;
 - Take up a requirement to actively seek out contradictory evidence.

The Appropriateness of the Terms “Contradictory” or “Disconfirming” Evidence

8. The current treatment of professional skepticism in ISA 200⁵ (paragraph A18) and the treatment of evidence in ISA 330⁶ (paragraph 26) and ISA 500⁷ (paragraph A1), among other standards, address the issue of evidence that “contradicts” other evidence. The word “contradict” means to maintain or assert the opposite or to be contrary or inconsistent with. In logic, contradictory statements are such that not both can be true (i.e., if one is true, then the other must be false). The word “disconfirm” means to prove to be invalid or to suggest or argue that a statement is wrong. Both “contradict” and

⁴ Agenda Item 8 “Professional Skepticism – Issues and Recommendations: “Mindset” Concepts and Wording, December 2017 meeting of the IAASB. www.iaasb.org/system/files/meetings/files/20171211-IAASB-Agenda-Item-8-Professional-Skepticism-Issues-Paper-FINAL.pdf

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

⁶ ISA 330, *The Auditor’s Responses to Assessed Risks*

⁷ ISA 500, *Audit Evidence*

“disconfirm” generally connote a clear binary opposition between statements – that is, that statements as a whole are diametrically opposed to one another. The questions arises whether these connotations might cause auditors to interpret these words too narrowly and thereby cause them not address situations in which different evidence might not be in clear opposition, but in which there may be some variance or inconsonance between evidence.

9. In a previous issues paper,⁸ the Subgroup had suggested that the ISA 540⁹ Task Force consider whether a term with broader connotative meanings than “contradictory” might be more appropriate to drive auditor behavior in dealing with variances between evidence. In particular, the term “inconsistent evidence” was deemed by the Subgroup to be more appropriate because the term “inconsistent” covers any lack of agreement or compatibility, as well as inconsonance, variance, and containing contradictory elements or parts. This would drive auditors to consider a broader range of variances between evidence. The term “inconsistent” together with “evidence” is used in a number of places in the ISAs – in particular in ISA 500 (paragraph 11), which requires the auditor to modify audit procedures or add to audit procedures when audit evidence is obtained from one source is inconsistent with that obtained from another source.
10. The final minutes of the meeting in which that issues paper was discussed neither indicate agreement nor disagreement of the Board with the Subgroup’s suggestion,¹⁰ which could be taken to mean that the suggestion at least ought to be considered. The Subgroup believes that, based on its analysis, the term “inconsistent evidence” is superior to “contradictory evidence” because it drives auditors to consider a broader range of variances between evidence. Furthermore, there should be some consistency in the use of the terms in the ISAs when the same concept is meant (it is unclear why the ISAs sometimes speak of “contradictory evidence” and sometimes use “inconsistent” in relation to “evidence”). Consequently, rather than “contrary” or “disconfirming” evidence, the term “inconsistent evidence” generally will be used hereafter in this paper.

Conclusion 1

The term “inconsistent evidence” covers a broader range of variances between evidence and therefore its use would drive auditors to consider those variances in addition to those where two pieces of evidence are in clear opposition to one another. Furthermore, there should be some consistency in the use of terminology in the ISAs when the intention is to apply the same concept. Consequently, the term “inconsistent evidence” ought to be used in the ISAs to mean evidence that is in some way at variance or not in consonance with other evidence.

Basis for Consideration of a Requirement to Seek Inconsistent Evidence

11. Under the current ISAs, the performance of an audit is premised upon management being responsible for preparing the financial statements, and for being responsible for such internal control as management determines necessary to enable the preparation of financial statements that are free

⁸ Agenda Item 2-A “Professional Skepticism – Issues and Working Group Recommendations”, June 2016 meeting of the IAASB, http://www.iaasb.org/system/files/meetings/files/20160621-Agenda_Item_2-A-Professional_Skepticism_Issues-Paper.pdf

⁹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

¹⁰ Agenda Item 1-A “Minutes of the 77th Meeting of the IAAASB”, http://www.iaasb.org/system/files/meetings/files/20160919_IAASB_Minutes-and-Opening-Remarks-June-2016_Approved_Public_Minutes.pdf

of material misstatement, whether due to fraud or error.¹¹ The assertions in the financial statements are therefore the assertions of management based upon the information that management has used to prepare those financial statements.

12. An auditor is required by the ISAs to obtain sufficient appropriate evidence (and hence reasonable assurance) that the financial statements are free of material misstatement. To do so, auditors need to compare the assertions made by management in the financial statements with the evidence auditors obtain about those financial statements.
13. Overall, the very nature of an audit as currently conceived means that evidence is obtained by the auditor to form an opinion whether the financial statements are materially misstated. In an audit, the auditor may conclude that the evidence obtained undermines one or more material management assertions in the financial statements or is inconsistent with evidence obtained from other sources. Auditors assess and respond to the risks of material misstatement (that is, to the likelihood of occurrence of a material misstatement, or “what can go wrong”). Consequently, the focus of auditors is on detecting misstatements, which means that an audit should not be seen as being solely “corroborative”, as appeared to be suggested by some respondents to the ITC.
14. With respect to contradictory evidence, the ISAs currently require the auditor to be alert for evidence that contradicts other evidence,¹² but do not require the auditor to actively seek contradictory evidence. The ISAs clarify that inconsistent or contradictory evidence identified needs to be considered or that further procedures need to be performed. Ultimately, whether or not to seek inconsistent evidence is an issue about seeking and using additional evidence from other sources. The concept of “other sources” of evidence covers both other sources within an entity and outside of the entity.
15. The treatment of evidence from other sources can be portrayed along a chain of decisions using sliding scales of likelihoods. These decisions include: 1. when to seek evidence from other sources, 2. the work effort used to seek evidence from other sources, and 3. the work effort in relation to evidence from other sources once obtained. These are analyzed here in some detail to assist an understanding of the issues, even if standards may not need to treat these matters in such detail.

When to Seek Evidence from Other Sources

16. The first question is when auditors ought to seek evidence from other sources. The following examples of factors provide an indication of the kinds of factors that may affect the auditor’s decision of when he or she ought to seek evidence from other sources:
 - *The magnitude of the assessed risk of material misstatement* (for example, if after obtaining the initial evidence the risk of material misstatement is assessed as being acceptably low, all other things being equal, there may be no need to seek evidence from other sources; on the other hand if, for example, after obtaining the initial evidence the risk of material misstatement is still assessed as being relatively high, then seeking evidence from other sources would be necessary).
 - *The likelihood with which evidence from other sources is expected to exist* (e.g., if it is expected that evidence from other sources is virtually certain not to exist, there is little point to seeking

¹¹ ISA 200, paragraph A2 (a) and (b)

¹² ISA 200, paragraph A18

that evidence; on the other hand, if the auditor believes that he or she is aware of evidenced from other sources, then, all other things being equal, it may be more likely that the auditor's ostensible awareness of its existence would prompt the auditor to seek that evidence).

- *The expected likelihood of the extent to which the evidence from other sources generates such evidence independently from evidence already obtained* (e.g., if the other source generates such evidence completely independently of the source from which the initial evidence was obtained, the evidential value of the evidence from the other source is much greater than if the other source is expected to generate evidence that is highly correlated with the initial evidence because it was not independently generated).
 - *The expected likelihood of the degree to which that the evidence obtained from another source expected to be consistent or inconsistent with the evidence already obtained* (e.g., if the evidence already obtained is itself sufficiently persuasive, seeking additional evidence from another source may less likely be needed if that evidence is not likely to be expected to be significantly inconsistent with the initial evidence; on the other hand, if the evidence already obtained is itself sufficiently persuasive, seeking additional evidence may be necessary if that evidence is likely to be expected to be significantly inconsistent with the initial evidence; in contrast, if the evidence already obtained is not sufficiently persuasive, evidence from another source is needed, regardless of whether consistent or inconsistent with the initial evidence).
 - *For evidence from sources outside of the entity, the expected likelihood with which the auditor can obtain access to, or use, another source of evidence* (e.g., in some circumstances, the auditor may be aware that other sources of evidence may exist, but there may be legal or other confidentiality barriers to obtaining or using that evidence: a prime example hereof would be the evaluation of whether a note receivable from another entity ought to be written down because the other entity may very likely need to be involuntarily liquidated in the near future – the auditor will in most cases not have legal access to the books and records, and other internal information, of that other entity, or may not use that information without breaching confidentiality requirements).
 - *Whether the expected additional work effort and cost of obtaining the evidence from another source is worth the expected benefit of the additional assurance (i.e., reduction in audit risk) obtained from that evidence* (this is a sensitive issue because it relates to the meaning of “reasonable assurance”, but, to use an extreme example, if the cost of obtaining the evidence is greater than the magnitude of the potential monetary misstatement, one could reasonably argue that the cost of that evidence is not worth the benefit).
17. All of the factors above deal with expectations or expectations about likelihoods that can be depicted on a sliding scale of likelihoods that, in descending order, could range from virtual certainty to a remote likelihood.
18. Another important feature of the examples of factors noted above is their interrelationship – that is, not all of the factors noted are completely mutually exclusive. For example, the magnitude of the assessed risk of material misstatement after having obtained initial evidence, as described in the first bullet point, is closely related to the persuasiveness of that evidence, as described in the fourth bullet point. Both of these are also closely related to the additional assurance (reduction in audit risk) that might be obtained from additional evidence from other sources, as described in the last bullet point.

19. The nature of the factors, their interrelationships and the fact that the factors deal with expectations or expectations about likelihoods, means that **considerable professional judgment is required when making a decision as to whether it is appropriate to seek additional evidence from other sources.**

The Work Effort Used to Seek Other Sources of Evidence

20. The second question is, once having decided to seek other sources of evidence, what work effort ought to be applied to actually find such evidence. This question ties into the last bullet point in the factors above (e.g., whether the expected additional work effort and cost of obtaining the evidence from another source is worth the expected benefit of the additional assurance obtained from that evidence). This means that the work effort used depends, among other matters, upon the cost-benefit relationship between the expected cost of the additional work effort and the expected additional assurance obtained.
21. There are many possible combinations of procedures that reflect different kinds and levels of work effort to seek inconsistent evidence, which can range from simply being alert to other sources of evidence or being alert to other sources of evidence and inquiring whether they exist, to performing additional procedures until the auditor believes that he or she has achieved a certain likelihood as to the existence of other sources of evidence (e.g., from believing it is unlikely that no other sources of evidence exist all the way to being virtually certain that no other sources of evidence exist).
22. It should be noted that currently the ISAs are at the lowest end of work effort (being alert) required to identify other sources of “contradictory” evidence. However, at the other end of the spectrum (e.g., the auditor performs procedures until the auditor believes it is at least very likely or even virtually certain that no other sources of evidence exist), such an open-ended requirement to seek inconsistent evidence in all circumstances is likely to lead to a work effort that is disproportionate, and in many circumstances would be unviable.
23. There is an interaction between the decision to seek other sources of evidence and the decision on the work effort to be applied to actually seek such evidence. For example, on the one hand, one can argue that the less likely the other sources of evidence are expected to exist, the more work effort would be expected to identify them because sources that are expected to be less likely to exist generally ought to be more difficult to find. Yet, it can also be argued that the less likely other sources are expected to exist, the less work effort should be expended in seeking to find them. Both perspectives depend very much upon how badly the additional evidence might be needed (which ties into some of the factors in the other bullet points, such as on the assessed risks of material misstatement, etc.). Given the relevance, for the decision on work effort to seek inconsistent evidence, of the factors in the bullet point list for the decision on whether to seek inconsistent evidence, one would expect that in practice auditors are likely to make both decisions concurrently in an integrated manner.
24. It can therefore be concluded that the appropriate work effort to seek other sources of evidence depends upon the interplay of the many factors noted above. Hence, **considerable professional judgment is required when making a decision as to the appropriate work effort to apply when seeking evidence from other sources. Furthermore, an open-ended requirement to seek inconsistent evidence in all circumstances is likely to lead to a work effort that is disproportionate, and in many circumstances would be unviable. The question arises whether it might be helpful for the ISAs give guidance on the factors that may help drive auditor**

behavior when the auditor makes decisions on whether it is appropriate to seek evidence from other sources and on applying the appropriate work effort when seeking such evidence. This is an issue that may require further consideration as part of the future work program of the IAASB.

The Work Effort In Relation to Evidence Obtained From Other Sources

25. Once the auditor has made a decision to seek evidence from another source and about the appropriate work effort to seek that evidence, the auditor may or may not actually obtain that evidence. If the evidence sought from other sources has not been obtained, the auditor needs to consider what the implications are for the audit.
26. If that evidence sought has been obtained, the question arises as to what the auditor ought to do with that evidence. ISA 330 (paragraph 26) requires the auditor, in forming an opinion, to **consider** all relevant audit evidence, regardless of whether it appears to corroborate or contradict the assertions in the financial statements. In addition, ISA 500 (paragraph 6) requires the auditor to **consider** the relevance and reliability of the information to be used as audit evidence. ISA 500 (paragraph 11) also requires the auditor to modify audit procedures or add to audit procedures as necessary to **resolve the matter** when audit evidence is obtained from one source is inconsistent with that obtained from another source.
27. For the first two aspects the ISAs currently require the work effort “to consider” – that is, the auditor is required to apply his or her mind to the matter (as “consider” was defined for the purposes of the Clarity Project). For the third aspect, the work effort is a more open-ended “resolve the matter”. In this case the actual work effort involved in “resolving the matter” is not specified, but such resolution would be subject to the inherent limitations of an audit as described in ISA 200, which means that reasonable, rather than absolute, assurance can at most be obtained in resolving a matter.
28. The sliding scale of work effort in relation to evidence to “resolve the matter” can range from consideration of the evidence (to apply one’s mind), evaluation of the evidence (pursuant to the non-authoritative IAASB Glossary of Terms, evaluate means to identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter, which may not involve obtaining reasonable assurance about the matter in many cases), all the way to obtaining sufficient appropriate evidence (that is, to perform the procedures necessary to obtain reasonable assurance in relation to the matter).
29. The requirement in ISA 330 (paragraph 26, second sentence), to **consider** all relevant audit evidence (including that obtained from other sources) in forming an opinion, regardless of whether the evidence appears to corroborate or contradict the assertions in the financial statements, is appropriate because it relates to the consideration of evidence as part of forming an opinion – it is not related to the gathering or evaluation of additional evidence per se. If upon such consideration the auditor comes to the conclusion that further evaluation of the evidence is needed, or that additional evidence is needed to obtain sufficient appropriate evidence, then the requirement in ISA 330 (paragraph 27) to seek additional audit evidence applies. What appears to be missing in ISA 330 in relation to the requirement in paragraph 26 second sentence is some guidance on how the auditor might consider corroborating vs. “contradictory” evidence in practice.
30. As noted above, the work effort for the requirement in ISA 500 (paragraph 11), that the auditor **modify audit procedures or add to audit procedures as necessary to resolve the matter** when audit

evidence is obtained from one source is inconsistent with that obtained from another source, is not specified, which means that the auditor must do whatever is necessary to “resolve the matter”. Paragraph A57 in the application material to this requirement refers to the requirement in ISA 230¹³ (paragraph 11), which requires the auditor to document how the auditor addressed information that is inconsistent with the auditor’s conclusion regarding a significant matter, but neither ISA 230 nor ISA 500 provide guidance on how the auditor might deal with the inconsistency. The application material does explain that audit evidence from different sources or a different nature may indicate that an individual item of audit evidence is not reliable, but does not provide any further explanation of the significance of the relative reliability of evidence in this situation.

31. The requirement in ISA 500 (paragraph 6) for the auditor to **consider** the relevance and reliability of the information to be used as audit evidence sets the work effort at having the auditor apply his or her mind to the relevance and reliability of evidence. This must be right in the first instance, because requiring the auditor to evaluate (as defined in the Glossary) the relevance and reliability of evidence, or obtain sufficient appropriate evidence in relation to the relevance and reliability of evidence, in every case would mean that the auditor would end up in an endless chain of obtaining evidence to support the relevance and reliability of evidence just obtained. However, if upon consideration of the relevance and reliability of evidence, the auditor concludes that evidence obtained is not sufficiently relevant or reliable, then the auditor would need to perform further procedures to obtain additional evidence. The latter consequence is not dealt with explicitly in ISA 500. Furthermore, the link between this requirement and the requirement in ISA 500 (paragraph 11) to resolve inconsistencies in evidence is not explored further, by for example, indicating that auditors may need to take into account the relative reliability, relevance, or persuasiveness of evidence that is inconsistent.
32. **Overall, it appears that the requirements in ISA 330 and ISA 500 direct the auditor to what needs to be done in the first instance at an appropriate level of work effort with evidence obtained from other sources, including inconsistent evidence. However, the question arises whether more guidance could be given on how auditors ought to deal with evidence that is not sufficiently relevant or reliable and how the resolution of inconsistencies between evidence might be undertaken in practice. The question also arises whether more guidance could be given on other factors that an auditor might need to take into account when considering how to “weigh” inconsistent evidence, such as the relative persuasiveness of the evidence (which might in turn be based at least in part on the their relative reliability and relevance). These are matters that may require further consideration as part of the future work program of the IAASB.**

¹³ ISA 230, *Audit Documentation*

Conclusion 2a

Considerable professional judgment is required when making a decision as to whether it is appropriate to seek additional evidence from other sources.

Conclusion 2b

Considerable professional judgment is required when making a decision as to the appropriate work effort to apply when seeking evidence from other sources. A requirement for auditors to actively seek inconsistent evidence in all cases does not appear to be a viable option. The question arises whether it might be helpful for the ISAs give guidance on the factors that may help drive auditor behavior when the auditor makes decisions on whether it is appropriate to seek evidence from other sources and on applying the appropriate work effort when seeking such evidence. This is an issue that may require further consideration as part of the future work program of the IAASB.

Conclusion 2c

The requirements in ISA 330 and ISA 500 direct the auditor to what needs to be done at an appropriate level of work effort with evidence obtained from other sources, including inconsistent evidence, and direct the auditor to consider all evidence obtained, whether corroborative or inconsistent. However, the question arises whether guidance could be given on how auditors ought to deal with evidence that is not sufficiently relevant or reliable and how the resolution of inconsistencies between evidence might be undertaken in practice. The question also arises whether guidance could be given on other factors that an auditor might need to take into account when considering how to “weigh” inconsistent evidence. These are matters that may require further consideration as part of the future work program of the IAASB.

C. Subgroup Recommendations

Subgroup Recommendations

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

1. To henceforth use the term “inconsistent evidence” rather than “contradictory evidence” in IAASB pronouncements;
2. To not add a requirement to seek inconsistent evidence in all circumstances;
3. To recognize the important role of professional judgment when making decisions about when to seek evidence from other sources, the work effort that should be applied when seeking such evidence, and how inconsistent evidence ought to be dealt with in practice; and
4. As part of the future work program of the IAASB, the IAASB may need to consider whether to provide additional guidance on the factors that auditor may need to consider when making decisions on when to seek evidence from other sources, the work effort that should be applied when seeking such evidence, and how inconsistent evidence ought to be dealt with in practice.

Matter for IAASB Consideration

- 1) Does the IAASB agree with the conclusions and recommendations of the Subgroup regarding the issues in relation to inconsistent evidence? Why or why not?

IAASB December 2016 Final Meeting Minutes – Professional Skepticism

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 Paper¹⁴ 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.

¹⁴ Agenda Item 9-A “Professional Skepticism – Issues and Recommendations, June 2017 meeting of the IAASB. <http://www.iaasb.org/meetings/new-york-usa-15>

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 – Professional Skepticism

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.

Conclusions and Recommendations of the Issues Paper¹⁵ on “Mindset” Concepts and Wording from December 2017 IAASB Meeting

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.

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)”.

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”.

¹⁵ Agenda Item 8 “Professional Skepticism – Issues and Recommendations: “Mindset” Concepts and Wording, December 2017 meeting of the IAASB. <http://www.iaasb.org/meetings/new-york-usa-17>

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”.

December 2017 IAASB Draft Meeting Minutes¹⁶ – Professional Skepticism

Prof. Köhler presented **Agenda Item 8** to the Board. The Board broadly supported the conclusions of the IAASB Professional Skepticism Subgroup (Subgroup) set out in Agenda Item 8, including that the current concept of the attitude of professional skepticism involving a “questioning mind” continues to be appropriate and should be retained within the ISAs. Board members questioned whether there is certain language that can be used in the standards to describe the actions the auditor should take in exercising professional skepticism. It was noted that a framework for terminology might be helpful in this regard. The Board also asked the Subgroup to focus on how the auditor evaluates whether sufficient appropriate and persuasive audit evidence has been obtained.

Prof. Köhler also provided an update of the activities of the IESBA's¹⁷ Professional Skepticism Task Force's short-term proposals related to professional skepticism.

PIOB REMARKS

Ms. Stothers emphasized that audit inspection findings, in particular of the Public Company Accounting Oversight Board and the Canadian audit regulator, focus on the importance of analyzing the required actions of the auditor to determine how best to strengthen the exercise of professional skepticism. She also noted the importance of close co-operation between the standard-setting boards. Finally, Ms. Stothers suggested that the topic of auditor compensation and its effect on professional skepticism could be addressed within the IAASB's project.

WAY FORWARD

The Subgroup will commence its analysis of the final potential change to the definition of professional skepticism, a potential requirement to seek out contradictory evidence. The Subgroup will also continue to support the other current standard setting projects of the IAASB, and liaise, as needed, with the Professional Skepticism Joint Working Group. Prof. Schilder noted that as Prof. Köhler will be rotating off of the IAASB after December 2017, Mr. Landes will assume the role of Chair of the Subgroup.

¹⁶ The draft minutes are still subject to IAASB review and therefore may still change.

¹⁷ International Ethics Standards Board for Accountants

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.¹⁸ 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.¹⁹
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,²⁰ 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.

¹⁸ Monitoring Group: IAIS, IOSCO; Member Bodies and Other Professional Organizations: AICPA, MAASB, FSR, ICAS

¹⁹ Monitoring Group: BCBS, IAIS

²⁰ 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,²¹ 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.²²
6. There were also respondents who noted the link between professional skepticism and risk assessment without explicitly referencing to a continuum.²³ 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."²⁴

²¹ 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

²² Member Bodies and Other Professional Organizations: AICPA, CAANZ, CAQ; Academics: Glover-Prawitt

²³ Member Bodies and Other Professional Organizations: ICAS

²⁴ Accounting Firms: KPMG