Proposed ISA 220 (Revised) – Respondents’ Comments on ED-220

Question 3 – Professional Skepticism

Question 3 asked:

Do you support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level? (See paragraph 7 and A27–A29 of ED-220)

Q3 – Agree

2. Regulators and Oversight Authorities

FRC

We strongly support:

The material in paragraph 7 and paragraphs A27 to A29 that highlight examples of impediments to exercising professional skepticism and offer possible actions to deal with the impediments. We believe that this guidance is necessary to support the application of the requirements in ISA 200 in respect of professional skepticism in the context of managing and achieving quality at the engagement level and in complying with the requirements of ED-220.

The requirement in paragraph 12 that emphasises and enhances the responsibility of the engagement partner to communicate the expected behaviour of the engagement team members in the context of a culture of quality, including the emphasis on the importance of professional skepticism.

We strongly support:

- The material in paragraph 7 and paragraphs A27 to A29 that highlight examples of impediments to exercising professional skepticism and offer possible actions to deal with the impediments. We believe that this guidance is necessary to support the application of the requirements in ISA 200 in respect of professional skepticism in the context of managing and achieving quality at the engagement level and in complying with the requirements of ED-220.

- The requirement in paragraph 12 that emphasises and enhances the responsibility of the engagement partner to communicate the expected behaviour of the engagement team members in the context of a culture of quality, including the emphasis on the importance of professional skepticism.

NASBA

Yes, we support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level and how the proposed standard links to ISA 200.

3. National Standard Setters

CFC

Yes. However, the definition of professional skepticism needs further clarification.
HKICPA
We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

KSW
Yes, we support the material, also A27-A29 are helpful.

NZAASB
The NZAuASB supports the material on the appropriate exercise of professional scepticism in management quality at the engagement level.

4. Accounting Firms

BDO
Yes, we support inclusion of material on appropriate exercise of professional skepticism in managing quality at the engagement level and believe this additional guidance could be beneficial. We believe that professional skepticism is a critical attribute in maintaining the appropriate mindset for auditors to properly exercise professional judgment.

Failure to exercise appropriate professional skepticism due to the circumstances outlined in paragraphs A27 - A28 is a risk to audit quality especially relating to less experienced staff members.

DTL
Yes, we support this. Professional scepticism is a key focus running through the core of audit and therefore is applicable here.

The application material is clear and provides some interesting and positive reminders/points of consideration.

DTTL
DTTL is supportive of the introductory material within ED-220 on the importance of the use of professional skepticism and professional judgment in performing audit engagements (paragraph 7 of the standard). Further, we are supportive of the related application material that describes the impediments to the exercise of professional skepticism at the engagement level, unconscious auditor biases, and possible actions the engagement partner may take to deal with impediments to the exercise of professional skepticism. See the Editorial Comments on Proposed ISA 220 (Revised) section below for editorial comments to paragraph A27.

ETY
Yes, we do. The material appears to be sufficiently detailed and tailored.

HM
Yes

KPMG
We support the inclusion of new material on the appropriate exercise of professional skepticism in planning and performing an audit as we believe this is a significant enhancement to the extant standard.

As we noted in our response to the IAASB’s Invitation to Comment, we consider that professional skepticism is a fundamental mindset, which requires the exercise of significant professional judgement. As a concept “professional skepticism” is somewhat elusive, which can result in challenges both in application, and in demonstrating that it has been appropriately applied.
We welcome the enhanced material, which helps to clarify the meaning, in context, of “professional skepticism”, and which includes recognition of the interrelationship of professional skepticism and professional judgement and the description as to how professional skepticism supports the quality of professional judgements made.

We also find the related application material particularly helpful, as it provides more detail to support an auditor in exercising professional skepticism, in practice. In particular, this sets out examples of impediments to the exercise of professional skepticism, including common threats and biases, whether conscious or unconscious, and suggestions as to possible actions the Engagement Partner may take to address or otherwise mitigate these.

We support the placement of this material in ISA 220 (Revised), as most of these considerations in relation to exercise of professional skepticism would be made at the engagement level, taking into account the applicable facts and circumstances of the audit engagement, as well as the particular individuals assigned to the engagement, their competence and capabilities in the context of the particular engagement, and how these interact collectively across the team.

We also believe that the material in ED ISQM 1 provides appropriate context for discussion on professional skepticism in ED ISA 220 (Revised). As we note in our comment letter on ED ISQM 1, we recognise that the aim of ISQM 1 is to help support the appropriate exercise of professional skepticism by creating an environment and culture that supports engagement teams in exercising appropriate professional skepticism. The material in ED ISA 220 (Revised) builds on this at the engagement level and we therefore suggest that the Board consider including clearer cross-referencing from ED ISA 220 (Revised) to ED ISQM 1, e.g. at paragraphs 11 and 12 of ED ISA 220 (Revised).

NI

YES this is helpful.

NSW

Yes, we support this material. We believe that the guidance in paragraph A38 on bias is particularly useful and could be expanded with practical examples.

PKFI

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

PKFSA

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level

RSMI

Yes, we consider that the appropriate exercise of professional skepticism is critical to achieving audit quality and we welcome the material in ED-220.

5. Public Sector Organizations

ACAG

Yes, ACAG supports the material in ED-220 on professional scepticism.
AGSA
Yes, we do support the material on the appropriate exercise of professional scepticism in managing quality at the engagement level. This will ensure that the engagement partner makes informed decisions about the courses of action that are appropriate to achieve quality.

The Auditor General South Africa (AGSA) welcomes and supports the IAASB’S revision of the International Standard on Auditing 220 (ISA 220) to address public interest considerations by encouraging proactive management of quality at the engagement level, emphasising the importance of professional scepticism and enhancing the documentation of auditor’s judgements. We believe that these enhanced and new requirements will improve quality management.

OAGC
Yes, we support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

PAS
Yes, we support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

SNAO
Yes, we are very much supportive of the included paragraph and application material. We find the requirement etc. to be very strong on the engagement level but we miss this precise tone in ISQM 1 and the responsibilities of the top management. Irrespective of how precise the requirements are on the engagement level, the engagement partner is part of a larger environment within the firm and there is a huge risk that the engagement partner would be influenced by the environment.

Suggestion to include some of the material in ISQM as well.

6. Member Bodies and Other Professional Organizations

AE
Paragraph 7 is very sensible and difficult to argue against. Nevertheless, we wonder if it will really make a difference in practice and tend to think that this is more procedural than behavioural.

We agree that paragraphs A27 to A29 properly belong to ISA 220 and are helpful.

CAI
Yes, it is a further reminder of the importance of quality at the engagement level.

CalCPA
Yes.

CCC-ICPARD
Yes, we do.
CICC-AIC
Yes, we support them.

CNDCEC
CNDCEC agrees with the proposal.

FSR
We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

IAB-IEC
IAB-IEC supports this material.

IBR-IRE
Yes.

ICAS
We are supportive of the material on the appropriate exercise of professional skepticism in managing quality at the engagement level and believe that this is helpful.

ICJCE
Yes. If we make a search of the term “professional skepticism” in ISA 220 in force, it returns only 1 match in the application material section. ED ISA 220, according to ISA 200, provides as a requirement to plan and perform the audit with skepticism and using professional judgment. Professional skepticism may become evident via actions and communications with the partner and other members of the engagement team. The application material includes circumstances that may influence professional skepticism together with steps to take when circumstances preventing the application of professional skepticism arise.

ICPAS
Yes, we support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level. However, the list of impediments in A27 does not mean appropriate professional skepticism cannot be applied if these instances exist. These issues are not new and can be resolved in the manner recommended in this exposure draft.

MICPA
Yes, the material supported the appropriate exercise of professional scepticism in managing quality at the engagement level.

NRF
We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level. However, we believe that education and training are necessary factors to achieve enhanced focus on professional skepticism.

NYSSCPA
We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level. We caution that the standard be clear that the lists included in A27 and A29 are just examples and not all-inclusive.
WPK
Yes, we generally support the material that demonstrates the appropriate exercise of professional skepticism in managing quality at the engagement level.

9. Individuals and Others
CAA-TAS
We do, and at the same time believe that professional skepticism has been adequately addressed since more specificity was proffered. The responsibility of the this has also been put on the partner to address his overall responsibility on the engagement and ways in which he can address the sufficiency and appropriateness of his monitoring and review process for professional judgements exercised and the skepticism applied.

Q3 – Agree But With Further Comments
1. Monitoring Group
BCBS
The application material (paragraphs A27-A29) in the standard is helpful in setting out examples of impediments, biases and actions in regard to professional skepticism. We believe it could be strengthened by adding the following examples:

- Budget constraints may discourage the use of sufficiently experienced or technically qualified resources (including specialists). This may be particularly relevant for audits of entities such as banks, where there is a need for the audit team to have, or access, sufficient technical and specialist skills, to ensure effective understanding, assessment of and responses to risks and challenge (relevant to paragraph A27).

- Familiarity and/or trust are additional biases that can be common. These can arise in relation to the staff and processes at the audited entity, but also in respect of prior year audit papers and procedures. As a result, there may be insufficient challenges or considerations of potential risks (relevant to paragraph A28).

IFIAR
We strongly support the IAASB’s development of proposals to address firms’ quality control systems and to strengthen the engagement quality review standard. We have identified the following areas where substantive improvements have been made to the extant standards:

- Enhanced requirements regarding the responsibility of the engagement partner to communicate the expected behaviour of the engagement team members in the context of a culture of quality, including the emphasis on the importance of professional scepticism; and

- Introduction of material that highlights the importance of professional scepticism, including examples of impediments to exercising professional scepticism and suggesting possible actions to deal with the impediments. We believe that this guidance is important and supports the application of the requirements in ISA 200 in respect of professional scepticism in the context of managing and achieving quality at the engagement level;

Professional scepticism is a key attribute for high quality audits. The lack of professional scepticism continues to be a driver for inspection findings. The standards need to reflect the importance of professional scepticism. We support the references to professional scepticism in the engagement performance sections of ISQM 1 (36(b)) and leadership sections of ISA 220 (12e) and paragraph 22(d)(i) of ISQM 2. We believe that the importance of professional scepticism should also be highlighted in the leadership and governance and engagement performance sections of ISQM 1 and ISA 220, respectively, and make clear reference to professional scepticism in relation to engagement quality reviewers (“EQ reviewers”) for engagements for which professional scepticism is required (including audits), both in the assessment of
whether the engagement team applied appropriate professional scepticism and the application of professional scepticism to the evaluation of significant judgements by the engagement quality reviewer.

**IOSCO**

ED ISA 220, paragraph 12 (e)

ED ISA 220 contains only one mentioning of the term (or better yet concept) ‘professional skepticism’ (see paragraph 12 e.)

More prominence should be given to the application of professional skepticism (a key concept of auditors) It should appear not only in the introduction (as it does quite frequently) but also in the standard. Currently any mentioning reads “…should apply professional judgment and, where applicable to the engagement, professional skepticism.”

ISA 220 spends an entire paragraph on impediments on professional skepticism, yet states it only should apply professional judgment and, where applicable to the engagement, professional skepticism.

2. **Regulators and Oversight Authorities**

**IRBA**

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

We recommend that the importance of professional skepticism also be highlighted in the acceptance and continuance and the engagement performance sections of ISA 220, particularly in paragraph 29.

The importance of professional skepticism should also be highlighted in the acceptance and continuance and the engagement performance sections of ISA 220, particularly in the review paragraph 29.

ISA 220 could place more emphasis on professional skepticism by explaining that the engagement partner demonstrates his/her professional skepticism by documenting his/her considerations where he/she has applied professional skepticism.

3. **National Standard Setters**

**AICPA**

We suggest revisions to paragraph A27 and A29 to alleviate indications that these paragraphs are not being read as the IAASB intends. We have concerns that the list of impediments to the exercise of professional skepticism in paragraph A27 and possible actions that engagement partners may take to deal with such impediments in paragraph A29 could be interpreted as a list of instances that always give rise to an impediment of professional skepticism and a checklist of required actions when such instances are encountered, respectively. Further, paragraph A27 is being interpreted as indicating that professional skepticism cannot be exercised when such impediments exists. To address these misinterpretations, we suggest changing “impediments” to “obstacles” in paragraph A27 and revising the first sentence in paragraph A29 as follows: “Possible actions that the engagement partner may take to deal with impediments overcome obstacles to the exercise of professional skepticism at the engagement level include:.” We further suggest that application guidance be added to paragraph A29 that identifies factors for the engagement partner to consider when evaluating the extent of procedures performed when impediments to professional skepticism are identified. We believe this would increase scalability and reduce the risk of a one-size-fits-all approach.

**AUASB**

The AUASB is supportive of the inclusion of the material on the exercise of professional scepticism, however, the AUASB views that the objective of paragraph 7 is unclear. Presently, the requirement may appear to lead engagement team members to question or ‘second guess’ their colleagues and/or the firm in meeting the requirements of this standard. The
AUASB questions whether this was the intention of this revision to the proposed standard and considers that paragraph 7, and other appropriate areas of ISA 220, should more clearly emphasise how the engagement partner is responsible for establishing an environment that supports the exercise of professional scepticism and setting an appropriate ‘tone from the top’ across the engagement team.

The AUASB supports the application material which more clearly articulates this responsibility. For example, paragraph A27 outlines the impediments to the engagement team’s ability to exercise professional scepticism that an engagement partner may have to deal with. The AUASB recommends the inclusion of other impediments to the exercise of professional scepticism at the engagement level to assist the engagement partner in establishing an environment that allows the engagement team to exercise appropriate professional scepticism.

CAASB

In part.

We support the inclusion of paragraph 7 to emphasize at the outset, the importance of the application of professional skepticism by the auditor. However, we believe that the paragraph is duplicative and repetitive. We recommend either deleting the third sentence and onward as it is redundant or moving it to paragraph A27-A29. Canadian stakeholders believe the stand back requirement also strengthens professional skepticism.

We do not support the fourth bullet in paragraph A27. ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, requires the auditor to obtain a sufficient understanding of the entity and its environment. We do not believe this bullet is appropriate as it relates to another ISA, unlike the remaining bullets.

JICPA

We agree that the guidance of ED-220 paragraphs A27 through A29 is beneficial. However, we have the following comments:

- Paragraphs A27 (impediments to the exercise of professional skepticism) and A28 (unconscious or conscious auditor biases) relate to the entire audit process, not only to quality management at the engagement level. Accordingly, we suggest that the description of paragraphs A27 and A28 be moved to ISA 200.

- In ED-220, paragraph A29 refers to possible actions that the engagement partner may take to deal with impediments to the exercise of professional scepticism as part of quality management at the engagement level. However, the last bullet of paragraph A29 ("communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors, or others from whom audit evidence may be sought") is considered to be relevant to the engagement partner’s actions in accordance with ISA 240 and ISA 260, rather than ED-220. Therefore, we suggest that the last bullet in paragraph A29 be deleted.

MAASB

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

We also wish to suggest for the possible actions as highlighted in paragraph A29 to be extended to other members of the engagement team and not only the engagement partner, as professional skepticism should be embedded in procedures and applied by all parties involved.
We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

We also wish to suggest for the possible actions as highlighted in paragraph A29 to be extended to other members of the engagement team and not only the engagement partner, as professional skepticism should be embedded in procedures and applied by all parties involved.

NBA

We support the application material in paragraphs A27-A29. They give concrete examples. Paragraph 7 seems to partly reiterate paragraph 6 and is very elaborate. We suggest to move most of the content of paragraph 7 to the application material.

4. Accounting Firms

BTI

Response: We support the material that is included in relation to Professional Skepticism and its links with professional judgement. Further, the material in the application material relating to impediments to skepticism and auditor bias are helpful.

However, we are not clear on the benefits of including Professional Skepticism in the Introduction to the standard (ED-220.7) and then including only a brief reference to the application of professional Skepticism in ED-220.12e. Most auditors focus on the requirements of a standard rather than the verbiage of the introduction and therefore would suggest that any references to Skepticism be included in requirements along with associated Application Material rather than the Introduction (subject to our comments in the next paragraph).

However, given that the requirement to plan and perform an audit with Professional Skepticism is already incorporated in ISA220.15, and notwithstanding that Skepticism is important in achieving audit quality, we would urge the IAASB to incorporate the proposed additional material in ED-220 (including impediments and auditor bias) in a revision to ISA200 rather than having requirements around skepticism in two different standards.

CASI

We also wish to suggest for the possible actions as highlighted in paragraph A29 to be extended to other members of the engagement team and not only the engagement partner, as professional skepticism role should be embedded and applied by all parties involve.

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

CG

The material in paragraph 7 and A27-29 of ED-220 note the requirement to perform the audit by applying professional scepticism. The appendix provides examples of challenges in applying professional scepticism and ways to overcome or deal with such challenges with a focus on bias and resource constraints.

The application of the standard and professional scepticism would benefit from examples on how professional scepticism is applied to an engagement, rather than solely focusing on challenges with applying professional scepticism and related solutions. This could be achieved through implementation support material.
EYG

We support the inclusion of responsibilities of the engagement partner and the engagement team to exercise professional skepticism in the introduction of ED-ISA 220. Specifically, we support the possible actions that the engagement partner may take to deal with the impediments to the exercise of professional skepticism at the engagement level. We believe these actions assist in managing and achieving quality on the audit engagement. However, we recommend that the IAASB consider clarifying that the impediments to the exercise of professional skepticism described in paragraph A27 are examples of impediments or potential impediments to the exercise of professional skepticism. That is, the presence of these items does not necessarily mean that professional skepticism cannot be exercised.

Further, we recommend that the IAASB consider including an explanation of what it means to exercise appropriate professional skepticism in the application material of ISA 220 (Revised). This could be achieved by providing a direct cross-reference to paragraphs A20 through A24 in ISA 200. Including a balance explanation of what professional skepticism is, together with impediments to professional skepticism, would be useful to support the expected behavior by engagement partners and engagement teams.

GTIL

We acknowledge the proposed amendments to ED-220 to place further emphasis on the appropriate exercise of professional skepticism through expanded discussion of its application in the introductory section to ED-220 (paragraph 7), the impediments (paragraph A27) to its application at the engagement level and the effect of auditor biases on its application (paragraph A28). However, this is only solidifying the issues relating to professional skepticism of which we are already aware. We would recommend that the IAASB consider providing guidance through related application material as to how to address these issues in practice, especially in light of continued criticism from regulators in this area.

KI

The material on the appropriate exercise of professional skepticism is supported. The potential impact of bias is significant and this could be further emphasized by having specific reference in Paragraph 12 (e).

MGIW

Exercising and evidencing professional scepticism is vital on audit engagements to try and allay concerns with the public that audit relationships can be too close with management, when the auditor is responsible to the shareholders of the company. Whilst our members’ client base will focus predominantly on owner-managed businesses, we support the IAASB in focusing on the need to exercise appropriate professional scepticism on all audits. The application material is useful in explaining to practitioners the indicators of when the audit engagement team may need to apply more scepticism (A27) and in prompting teams to consider how they can adopt a more sceptical mindset (A28). This is one area where the linkage with ISQM 1 needs to be robust as adopting a sceptical mindset and following this through on files requires the leadership’s commitment to quality and robustness to be high (the “tone from the top”). SMPs will require more guidance in this area, especially on how such scepticism should be documented or evidenced within the audit files to be sufficient.

Together with ISA 230, the overarching documentation requirements are noted in paragraph 38 and the examples of how the engagement partner’s involvement can be evidenced (A102) will be useful to firms. One area for further guidance, examples and training will be in the extent to which the professional scepticism of the engagement team should be documented on files. This will be especially relevant for SMPs who are more
likely to discuss matters within the team and resolve matters verbally rather than engage in formal internal or external consultations.

**MNP**

The audit environment is one where sometimes heavy staff workloads, fee constraints, and tight financial reporting deadlines may have an impact on the audit engagement team members’ ability to consistently apply professional skepticism throughout the course of the audit engagement. In addition to the comments on professional skepticism in our response to the proposed ISQM 2, we feel that professional skepticism is a mindset or behaviour that cannot be prescribed through a checklist of specific items. As such, we support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level. However, we believe additional guidance on what constitutes appropriate evidence of the application of professional skepticism would be helpful in documenting professional skepticism within the audit engagement file.

**MSI**

We believe this material is helpful however we would welcome its inclusion in ISA 200 rather than in ISA 220.

**MZRS**

We support the material on professional skepticism, especially as developed in A27-A29. Nevertheless, it is as well important to underline that professional skepticism enhancement actions can also be designed and trained at the firm level to ensure consistency, by business and sub-sectors, between the different audit engagements and engagement partners, and provide relevant examples of real case situations faced.

We recommend that the circumstances in A27 are extended to address situation when the entity either refuses to correct identified misstatements, or only reflect selective misstatements to improve results or balances.

**MZRSUS**

The exercise of professional skepticism is mandatory in managing quality at the engagement level. We support the material in ED-220 paragraph 7 and throughout the Proposed Standards, but do have cautionary suggestions related to the application guidance:

Paragraphs A27 and A29 could be perceived as finite lists. The final standards should clarify these are not all inclusive nor the only circumstances that could impede professional skepticism to avoid checklist mentality or applicability regardless of engagement size.

Consider whether A103 should be included as part of the standard for when professional skepticism is required as well as the related documentation of the circumstance.

**PwC**

We support the guidance provided in this area and do not believe that additional guidance is necessary. We believe that it may also be helpful to provide additional references to the application material in ISA 200 on how professional scepticism may be applied.

**5. Public Sector Organizations**

**GAO**

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level.

However, we believe that the proposed standard could benefit from focusing on the engagement partner’s audit documentation review as a specific and measureable way that engagement partners can demonstrate
that they are sufficiently and appropriately involved with the engagement and that engagement team members have exercised professional judgment and professional skepticism.

**NAOM**

Yes. The exercise of professional skepticism with respect to the risk of material misstatement of the financial statements, risk of lack of compliance with rules and regulations, and the risk of fraud and corruption could also be included.

**OAGA**

We disagree with A27’s comment on overreliance on tools and templates as undermining professional skepticism. Tools and templates are developed by a firm’s professional practice or equivalent and are independent of a particular engagement. The development of firm tools and templates are among the strongest means a firm has to ensure quality and overcome biases of engagement teams. Tool and templates should be re-characterized from something problematic in A27 to something under A29 as among the most important actions to overcoming biases and ensuring quality. Engagement leaders should ensure that the firm’s methodologies, tools and templates are followed, and to be very skeptical when departing from them.

**OAGNZ**

We support the material on the appropriate exercise of professional scepticism, however, we note that because this material is only contained in the introduction to the proposed standard, and not the requirements, there is a risk that the material may not be implemented.

### 6. Member Bodies and Other Professional Organizations

**ACCA-CAANZ**

We are supportive of the need to address professional scepticism in the standard however, some of our stakeholders expressed concerns that paragraph 7 is confusing as currently drafted.

As we have stated in our submissions on ED-ISQM 2 (and ED-ISQM 1) and on previous standards, we believe that professional scepticism is a ‘state of mind’ that cannot be instilled by it merely being mentioned more often in standards. It must come from the firm having a culture that reflects the value of professional scepticism through the tone at the top and formal and on-the-job training of staff. Regulators most frequently express concerns around professional scepticism in relation to documentation of the exercise of professional scepticism and the application guidance does not cover this in detail. Implementation guidance and examples of scalable documentation would be valuable for SMPs.

**CAQ**

Overall, we support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level; however, we recommend the following:

- In certain jurisdictions, application guidance is interpreted to be de facto requirements. In paragraphs A27 and A29, the list of impediments to the exercise of professional skepticism and possible actions that engagement partners may take to deal with such impediments, respectively, could be interpreted as a list of instances that always give rise to an impediment of professional skepticism and a checklist of required actions when such instances are encountered, respectively.
- Consider clarifying that paragraph A27 lists examples of potential impediments and does not necessarily indicate that professional skepticism cannot be exercised when such impediments exists.
• Consider additional application guidance in paragraph A29 that identifies factors for the engagement partner to consider when evaluating the extent of procedures performed when impediments to professional skepticism are identified. We believe this would increase scalability and reduce the risk of a one-size-fits-all approach.
• The application guidance in paragraph A103 should be elevated into the standard such that documentation “when dealing with circumstances that may pose risks to... the exercise of professional skepticism” is required.

CPAA
Whilst we welcome the explanations of the role of professional skepticism along with the drivers, impediments and biases impacting the exercise of professional skepticism, we question why this is only reflected substantially in the introductory material and application material. Although mentioned in paragraph 12(e), we suggest that the IAASB consider how this material can be further reflected in the requirements.

IBRACON
Yes. We support the inclusion of the material on the appropriate exercise of professional skepticism and believe a linkage to ISA 200 could be beneficial, where there is an application guidance on how can it be applied.

ICAEW
Material on the appropriate exercise of professional scepticism is helpful, although we note in our main points above the limited impact auditing standards can have on it.

The impact of auditing standards on the exercise of professional scepticism, which is a state of mind, is limited. Auditing standards support the exercise of scepticism to the extent that they require the exercise of professional judgement and avoid prescription. IAASB’s standards - by its own admission - have become increasingly prescriptive in recent years. That, combined with the sheer length of the proposals risks auditors getting bogged down in the requirements rather than standing back - which is what professional scepticism requires.

The proposals rightly emphasise iteration and connectivity as well as process. But practitioners may focus on process and IAASB could improve the proposals by balancing this perceived emphasis with more focus on competence, and the importance of its role in fostering professional scepticism. The link with the IAESB’s work on this area should be made clearer by referring explicitly to the proposed IESs, particularly IES 8.

The recognition of some of the impediments to scepticism in para A27, the examples of bias in para A28 and the possible actions in paragraph A29 all provide useful guidance. However, while it is clearly related to audit quality, consideration might be given to including the material in ISA 200, instead, in more general guidance on professional scepticism.

ICAP
We agree that sufficient and appropriate material has been provided on the exercise of professional skepticism in managing quality at the engagement level. However, we note that emphasis has been placed on the Engagement partner’s role in the management of impediments to professional skepticism. We believe that more guidance needs to be given for other engagement team members to cope with such situations.

ICPAU
ICPAU supports the material on the appropriate exercise of professional skepticism in managing quality at the engagement level. However, we observe the change in language used to emphasise the engagement partner’s responsibilities from using the phrase “shall be satisfied” to “shall determine”. This change appears to result in a higher bar for an engagement partner to meet.

**IMCP**

We support the material on the appropriate exercise of professional skepticism in managing quality at the engagement level, however, we suggest that paragraph A29 includes alternative actions for small and medium firms different from changes in the engagement team members.

**SAICA**

Professional skepticism is a difficult subject because of the level of judgement involved. ED-220 only makes reference to professional skepticism in three places in the body of the standard, namely paragraphs 6, 7 and 12 and without the related application material, the concept of professional skepticism and the required application is open to different interpretations. SAICA is in support of the additional application material included in paragraphs A27 – A 29 of ED-220. This is the first time that we are seeing this type of guidance. This is seen as a positive addition that is welcomed as providing useful guidance.

In relation to the application material, paragraph A27 includes examples of impediments to professional skepticism that the engagement partner may need to address. A question around whether impediments that are specific requirements for the auditor to comply with was raised. For example, ISA 315 (Revised) requires the auditor to obtain an understanding of the entity and its environment so how can insufficient understanding of the entity and the environment be an impediment.

In relation to the impediment that may undermine the exercise of professional scepticism, the impediment that we see is when the auditor, including the engagement partner and the engagement team is not aware of the areas that are more susceptible to bias and therefore does not place the sufficient emphasis on the exercise of professional skepticism.

In relation to obtaining a sufficient understanding of the entity and its environment, the impediment we see is the existence of a barrier to obtaining the required understanding.

We recommend that these specific examples included in paragraph A27 be reworded in line with the suggestion in the paragraphs above to clarify the impediment.

To echo the concerns noted in the response to ED-ISQM 1, concerns have been noted in relation to how the engagement partner demonstrates compliance with ED-220. A specific area of concern that was noted relates to auditor biases, as included in paragraph A28 of ED-220. This paragraph provides examples of biases that may affect the auditor's judgement. SAICA sees this as a positive addition to the application material. During our outreach activities, there was general consensus that the focus should be on how the auditor actually considers and demonstrates how these have been
overcome, as opposed to focusing on the documentation. However, concerns were noted around how the auditor demonstrates that these have been considered and overcome.

In line with the recommendation included in the ED-ISQM 1 response letter, it is SAICA’s recommendation that the IAASB engage IFIAR and other audit regulators in understanding how they intend regulating compliance with the requirements of the QM-EDs. The IAASB can then use input obtained through this engagement to create an illustrative framework of what good documentation entails, in indicating the bare minimum that is expected to be documented on file.

SAICA welcomes the addition of the guidance contained in paragraph A29 on possible actions that the engagement partner may take to deal with impediments to the exercise of professional scepticism, A question that was noted in relation to this was around the difference between the following possible actions:

Changing the composition of the engagement team assigned, for example involving more experienced staff in order to obtain greater skills or knowledge or specific expertise.

Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with.

It is our understanding that the first point addresses who the members of the engagement team should be. In line with this, it is suggested that the second bullet point should then talk to how the audit work is allocated among the members of the audit team that has been established in accordance with the preceding bullet.

SMPC

Yes, the SMPC is generally supportive of the materials that demonstrates the exercise of professional skepticism in managing quality at the engagement level – to an extent. As mentioned in our comment letter on ISQM 1, we are more convinced that a continuing educational strategy may be more effective in driving a change of behavior. Nevertheless, the current approach can still serve as a timely reminder for the firms, the engagement partners and the assurance teams.

8. Academics

AAA-ASC

We support the material provided in ED-220 on the appropriate exercise of professional skepticism in managing quality at the engagement level. Research provides ample evidence that professional skepticism is a requirement for making appropriate professional judgments and quality decisions in audits (Carpenter and Reimers 2013; Hurtt, Brown-Liburd, Earley, and Krishnamoorthy 2013; Brazel, Jackson, Schaefer, and Stewart 2016; Harding and Trotman 2017; Brazel, Gimbar, Maksymov, and Schaefer 2018; Eutsler, Norris, and Trompeter 2018). We highlight a few expositional issues and offer a few minor suggestions for the Board’s consideration.

The second sentence of paragraph 7 is currently, “In doing so, the engagement partner and engagement team exercise professional judgment and professional skepticism in meeting the objective and requirements of this ISA.” As professional skepticism is an input to judgment in decision making, we suggest reordering these terms in the sentence. In addition, we recommend specifically identifying ISA 220 to eliminate any possible confusion as to which standard is referenced. If this suggestion is adopted, the second sentence of paragraph 7 would be, “In doing so, the engagement partner and engagement team exercise professional skepticism and professional judgment in meeting the objective and requirements of ISA 220.”

The fifth sentence of paragraph 7 is, “The appropriate exercise of professional skepticism may [emphasis added] be demonstrated through the actions and communications of the engagement partner and other
members of the engagement team.” We suggest using “should” instead of “may.” We believe the stronger language better places the responsibility of demonstrating professional skepticism on the engagement team.

We recommend the description of possible auditor bias be used consistently throughout ED-220 (e.g., paragraphs 7 and 28). Because the terminology “conscious bias” may be interpreted as auditors intentionally avoid exercising professional skepticism, we suggest omitting the use of both “conscious” and “unconscious,” and simply using the word, “bias.” We also recommend the wording of the last sentence of paragraph 7 replace “deal with” with “mitigate.” If these suggestions are adopted, the revised sentence in paragraph 7 would read, “Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional skepticism such as biases or resource constraints.” The terms, “conscious” and “unconscious” would also be removed from paragraphs A28 and A29.

Academic research has demonstrated the importance and impact of an audit firm’s culture on the exercise of professional skepticism (e.g., Gold, Gronewold, and Salterio 2013; Brazel et al. 2016; Brazel, Leiby, and Schaefer 2019). To highlight this connection, we suggest adding language to paragraph 7 that describes the engagement partner’s responsibility is not only to demonstrate the appropriate exercise of professional skepticism, but also to create a culture among all engagement team members that encourages and facilitates the exercise of skepticism.

As paragraph A27 is not an all-encompassing list of the impediments to professional skepticism, we recommend rephrasing “such as” to “including, but not limited to.” In addition, descriptions of the items are inconsistent; not all are explicit about how the exercise of professional skepticism may be undermined. Moreover, we believe bullet point six should explicitly describe that overreliance on technology-enabled audit processes and tests may negatively impact professional skepticism (Boland et al. 2019). Specifically, bullet point six could be revised to say, “Overreliance on standardized tools and templates and technology-enabled audit processes and tests (collectively, SATs) enhance audit efficiency but may also undermine the exercise of professional skepticism by the engagement team. Client complexity increases the likelihood that SATs may not address all audit risks applicable to a specific audit engagement.”

Paragraph A28 broadly describes four common decision biases. To increase auditors’ understanding of these biases, we suggest more familiar examples be included. For example, confirmation bias may result in auditors accepting weak explanations from clients or inappropriately excluding errors or outliers from the results of a sample. Overconfidence bias may result in auditors including too few items to sample – particularly in small populations (e.g., testing monthly reconciliations). Anchoring may result in auditors assuming there is no error in current year account balances when they approximate prior year account balances, but should not (e.g., the loss of a major customer should have resulted in a decrease in revenues and receivables).

In paragraphs A27 and A29, we recommend using the word “address” instead of “deal with”; and in the seventh bullet of paragraph A29, we recommend replacing “on a timely basis” with “timely.”

UNSW

We believe that paragraph 7, as presently drafted, is unclear as to the required target of the engagement partner and other members of the engagement team’s professional skepticism. Current references in paragraph 7 to the exercise of professional skepticism in meeting objectives and requirements of the proposed standard suggest that professional skepticism is viewed by the IAASB, not only as a critically important outcome of an effective system of quality management, but also as a lens through which the firm’s system of quality management is implemented and operated at the engagement level.
Professional skepticism is defined as “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”. As an outcome of an effective system of quality management, the targeting of professional skepticism at the likelihood of material misstatement due to error and/or fraud clearly contributes to achieving the goal of an audit and, therefore, helps the auditor meet the objectives of the proposed standard as noted in paragraph 9. The proposed standard includes a number of provisions (A27-A29) that when effectively incorporated into a system of quality management will help members of the engagement team exercise an appropriate level of professional skepticism targeted at the likelihood of material misstatement. We provide some comment on these provisions below.

What we feel is unclear, however, is the extent to which the proposed standard requires the engagement partner and other members of the engagement team to exercise professional skepticism in meeting the requirements of the proposed standard. That is, to exercise professional skepticism in implementing and adopting a system of quality management at the engagement level. For example, is it the intention of the IAASB that the engagement partner exercises professional skepticism when determining that other members of the engagement team have been made aware of relevant ethical requirements (paragraph 15), when satisfying themselves that the firm’s policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed (paragraph 20), when taking responsibility for appropriately using the resources assigned or made available to the engagement team (paragraph 26)? In this regard, we note that the explanatory memorandum accompanying proposed standard on quality management ISQM 1 noted that “the IAASB considered whether the concept of professional skepticism is relevant to professional judgments made about the system, and agreed that professional skepticism is a concept that is relevant to judgments made in performing engagements” (ED-ISQM 1 Explanatory Memorandum paragraph 24).

If it is the intention of the IAASB to extend the exercise of professional skepticism to meeting the requirements of the proposed standard (i.e., to exercise professional skepticism when implementing and operating a system of quality management at the engagement level), then we feel that this must be made clearer in paragraph 7. Moreover, we would recommend, given that the target of professional skepticism in such a situation is often focused on the firm and auditor processes, rather than management representations, that additional explanatory material be provided beyond that which is currently in the proposed standard. In this regard, our research (Harding and Trotman 2017) shows that directing auditors to focus on the fallibility of their judgment processes may be effective in elevating professional skepticism directed toward the likelihood of material misstatement. We note, however, that our study was limited to encouraging auditors to question themselves, rather than, as would be necessary when exercising professional skepticism in the application of many of the proposed standard’s requirements, to question their colleagues and their firm. If it is not the intention of the IAASB to extend the exercise of professional skepticism to meeting the requirements of the proposed standard, then we would suggest that paragraph 7 be amended to remove the potential for this (mis)interpretation, possibly limiting the exercise of professional skepticism to meeting the objective but not the requirements, of the standard.

To the extent that it is the IAASB’s intention that professional skepticism should be exercised in the implementation and adoption of a system of quality management, we would recommend that the IAASB adopt a cautious approach. Implicit in the definition of professional skepticism is a recognition and alertness to the possibility of deliberate deception. While we would concur with a view that audit quality may benefit from engagement partners, and the engagement team members more broadly, maintaining a questioning mind when considering the way in which a firm’s system of quality management is applied in response to unique engagement circumstances (e.g., to reflect on the way direction may impact the objectivity of engagement
team judgments), we feel that to require the engagement team to be skeptical and reflect on deliberate misrepresentation when considering the way in which a firm’s system of quality management is applied is not only unnecessary, but potentially dysfunctional for the conduct of the audit. Our research (Harding, Azim, Jidin and Muir 2016) highlights the challenges to the conduct of the audit in an adversarial type setting often generated by a lack of trust (or distrust) associated with the exercise of professional skepticism. To require auditors to doubt the representations of their colleagues (in the same way as they doubt the representations of their clients) would challenge the conduct of the audit to such an extent that would most likely lead to a reduction in audit quality through a lack of cooperation among the engagement team. We therefore express reservation toward any potential requirement for auditors to exercise professional skepticism in implementing and adopting a system of quality management (i.e., exercising professional skepticism in meeting the requirements of the standard). In addition we would not support a hybrid form of professional skepticism for this purpose. The IESBA code sets out the five fundamental principles establishing a standard of behavior of professional accountants and we believe that these are appropriate principles by which the engagement team can implement a firm’s system of quality management at the engagement level. We encourage the IAASB to consider revising the proposed standard so as to set the IESBA principles as the lens through which the firm’s system of quality management is viewed with reference to implementation at the engagement level.

With reference to the system of quality management facilitating the exercise of professional skepticism at the engagement level (i.e., as an important outcome of a system of quality management), on the basis of our own research and that of others, we are generally supportive of the material presented in paragraphs A27 to A29. However we feel that there are opportunities for improvement. We also refer to our response to Question 1 as it relates to leadership responsibilities facilitating the exercise of professional skepticism.

There are numerous impediments to the exercise of professional skepticism, many of which were identified by respondents to the Invitation to Comment ‘Enhancing Audit Quality in the Public Interest’. Academic reviews (e.g., Hurtt, Brown-Libard, Earley and Krishnamoorthy 2013; Brazel and Schaefer 2015) also summarize academic research on impediments to professional skepticism. While many of these impediments are relevant to quality management at the firm level, some relate to engagement specific circumstances or the actions of the engagement partner, and therefore are relevant to this proposed standard. It is pleasing to see an explicit recognition of the need for the engagement partner to address these impediments at the engagement level. We do, however, wonder why some impediments are listed, while others are not listed. Research highlights a number of other impediments to the exercise of professional skepticism. For example, the means by which auditors communicate with the client (i.e., face to face or via computer) (Bennett and Hatfield 2018), the attitude of client personnel (i.e., friendly or intimidating) when responding to engagement team enquiries (e.g., Bennett and Hatfield 2013; Eutsler, Norris and Trompeter 2018), and even the attractiveness of the client’s physical office environment (Khan and Harding 2019) can threaten the exercise of an appropriate level of professional skepticism at the engagement level. We recommend, therefore, that paragraph A27 be expanded to recognize a broader suite of engagement level impediments to the exercise of professional skepticism.

In addition, and further to our comment above on the responsiveness of the proposed standard to future developments in audit quality, research will continue to identify impediments to the exercise of professional skepticism. An ever-changing audit environment will render some current impediments moot, while giving rise to new impediments. We encourage the IAASB to reflect on whether specific impediments can be noted in guidance material outside of the standard, rather than as part of the standard, so as to avoid the examples provided becoming dated and to facilitate the responsiveness of the standard to new environments, technologies and research.
We are also supportive of the recognition of potential actions the engagement partner may take to deal with impediments to the exercise of professional skepticism at the engagement level (i.e., paragraph A29). As is the case for impediments to professional skepticism, academic research has identified means by which impediments may be addressed (see for example reviews by Hurtt, Brown-Libard, Earley and Krishnamoorthy 2013; Brazel and Schaefer 2015). While we have no objection to the actions listed in paragraph A29, there are numerous other actions, often involving the alternate action to that which gives rise to impediments (e.g., encouraging auditors to engage with management face to face rather than through electronic communication), that are not listed. To illustrate, our own research (Harding and Trotman 2017) (see also Bell, Peecher and Solomon 2005; Grenier 2017) suggests that one possible action that the engagement partner may take to deal with impediments to the exercise of professional skepticism is to focus engagement team members’ doubt, not only on management representations, but also on their own fallible judgment processes. Consistent with our recommendation relating to paragraph A27, we similarly recommend that a broader suite of actions that may address impediments to the exercise of professional skepticism be listed in paragraph A29.

Having said this, we again question whether specific examples should be in the standard, or whether paragraph A27, in which the need for engagement partners to deal with impediments to the exercise of professional skepticism, should stand alone, with the examples currently in paragraphs A27 and A29 included in guidance material that can be more effectively updated, without having to re-open the standard.

We believe that paragraph 7, as presently drafted, is unclear as to the required target of the engagement partner and other members of the engagement team’s professional skepticism. Current references in paragraph 7 to the exercise of professional skepticism in meeting objectives and requirements of the proposed standard suggest that professional skepticism is viewed by the IAASB, not only as a critically important outcome of an effective system of quality management, but also as a lens through which the firm’s system of quality management is implemented and operated at the engagement level.

Professional skepticism is defined as “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”. As an outcome of an effective system of quality management, the targeting of professional skepticism at the likelihood of material misstatement due to error and/or fraud clearly contributes to achieving the goal of an audit and, therefore, helps the auditor meet the objectives of the proposed standard as noted in paragraph 9. The proposed standard includes a number of provisions (A27-A29) that when effectively incorporated into a system of quality management will help members of the engagement team exercise an appropriate level of professional skepticism targeted at the likelihood of material misstatement. We provide some comment on these provisions below.

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concept that is relevant to judgments made in performing engagements” (ED-ISQM 1 Explanatory Memorandum paragraph 24).

If it is the intention of the IAASB to extend the exercise of professional skepticism to meeting the requirements of the proposed standard (i.e., to exercise professional skepticism when implementing and operating a system of quality management at the engagement level), then we feel that this must be made clearer in paragraph 7. Moreover, we would recommend, given that the target of professional skepticism in such a situation is often focused on the firm and auditor processes, rather than management representations, that additional explanatory material be provided beyond that which is currently in the proposed standard. In this regard, our research (Harding and Trotman 2017) shows that directing auditors to focus on the fallibility of their judgment processes may be effective in elevating professional skepticism directed toward the likelihood of material misstatement. We note, however, that our study was limited to encouraging auditors to question themselves, rather than, as would be necessary when exercising professional skepticism in the application of many of the proposed standard’s requirements, to question their colleagues and their firm. If it is not the intention of the IAASB to extend the exercise of professional skepticism to meeting the requirements of the proposed standard, then we would suggest that paragraph 7 be amended to remove the potential for this (mis)interpretation, possibly limiting the exercise of professional skepticism to meeting the objective but not the requirements, of the standard.

To the extent that it is the IAASB’s intention that professional skepticism should be exercised in the implementation and adoption of a system of quality management, we would recommend that the IAASB adopt a cautious approach. Implicit in the definition of professional skepticism is a recognition and alertness to the possibility of deliberate deception. While we would concur with a view that audit quality may benefit from engagement partners, and the engagement team members more broadly, maintaining a questioning mind when considering the way in which a firm’s system of quality management is applied in response to unique engagement circumstances (e.g., to reflect on the way direction may impact the objectivity of engagement team judgments), we feel that to require the engagement team to be skeptical and reflect on deliberate misrepresentation when considering the way in which a firm’s system of quality management is applied is not only unnecessary, but potentially dysfunctional for the conduct of the audit. Our research (Harding, Azim, Jidin and Muir 2016) highlights the challenges to the conduct of the audit in an adversarial type setting often generated by a lack of trust (or distrust) associated with the exercise of professional skepticism. To require auditors to doubt the representations of their colleagues (in the same way as they doubt the representations of their clients) would challenge the conduct of the audit to such an extent that would most likely lead to a reduction in audit quality through a lack of cooperation among the engagement team. We therefore express reservation toward any potential requirement for auditors to exercise professional skepticism in implementing and adopting a system of quality management (i.e., exercising professional skepticism in meeting the requirements of the standard). In addition we would not support a hybrid form of professional skepticism for this purpose. The IESBA code sets out the five fundamental principles establishing a standard of behavior of professional accountants and we believe that these are appropriate principles by which the engagement team can implement a firm’s system of quality management at the engagement level. We encourage the IAASB to consider revising the proposed standard so as to set the IESBA principles as the lens through which the firm’s system of quality management is viewed with reference to implementation at the engagement level.

With reference to the system of quality management facilitating the exercise of professional skepticism at the engagement level (i.e., as an important outcome of a system of quality management), on the basis of our own research and that of others, we are generally supportive of the material presented in paragraphs A27 to A29. However we feel that there are opportunities for improvement. We also refer to our response to Question 1 as it relates to leadership responsibilities facilitating the exercise of professional skepticism.
There are numerous impediments to the exercise of professional skepticism, many of which were identified by respondents to the Invitation to Comment ‘Enhancing Audit Quality in the Public Interest’. Academic reviews (e.g., Hurtt, Brown-Libard, Earley and Krishnamoorthy 2013; Brazel and Schaefer 2015) also summarize academic research on impediments to professional skepticism. While many of these impediments are relevant to quality management at the firm level, some relate to engagement specific circumstances or the actions of the engagement partner, and therefore are relevant to this proposed standard. It is pleasing to see an explicit recognition of the need for the engagement partner to address these impediments at the engagement level. We do, however, wonder why some impediments are listed, while others are not listed.

Research highlights a number of other impediments to the exercise of professional skepticism. For example, the means by which auditors communicate with the client (i.e., face to face or via computer) (Bennett and Hatfield 2018), the attitude of client personnel (i.e., friendly or intimidating) when responding to engagement team enquiries (e.g., Bennett and Hatfield 2013; Eutsler, Norris and Trompeter 2018), and even the attractiveness of the client's physical office environment (Khan and Harding 2019) can threaten the exercise of an appropriate level of professional skepticism at the engagement level. We recommend, therefore, that paragraph A27 be expanded to recognize a broader suite of engagement level impediments to the exercise of professional skepticism.

In addition, and further to our comment above on the responsiveness of the proposed standard to future developments in audit quality, research will continue to identify impediments to the exercise of professional skepticism. An ever-changing audit environment will render some current impediments moot, while giving rise to new impediments. We encourage the IAASB to reflect on whether specific impediments can be noted in guidance material outside of the standard, rather than as part of the standard, so as to avoid the examples provided becoming dated and to facilitate the responsiveness of the standard to new environments, technologies and research.

We are also supportive of the recognition of potential actions the engagement partner may take to deal with impediments to the exercise of professional skepticism at the engagement level (i.e., paragraph A29). As is the case for impediments to professional skepticism, academic research has identified means by which impediments may be addressed (see for example reviews by Hurtt, Brown-Libard, Earley and Krishnamoorthy 2013; Brazel and Schaefer 2015). While we have no objection to the actions listed in paragraph A29, there are numerous other actions, often involving the alternate action to that which gives rise to impediments (e.g., encouraging auditors to engage with management face to face rather than through electronic communication), that are not listed. To illustrate, our own research (Harding and Trotman 2017) (see also Bell, Peecher and Solomon 2005; Grenier 2017) suggests that one possible action that the engagement partner may take to deal with impediments to the exercise of professional skepticism is to focus engagement team members' doubt, not only on management representations, but also on their own fallible judgment processes. Consistent with our recommendation relating to paragraph A27, we similarly recommend that a broader suite of actions that may address impediments to the exercise of professional skepticism be listed in paragraph A29.

Having said this, we again question whether specific examples should be in the standard, or whether paragraph A27, in which the need for engagement partners to deal with impediments to the exercise of professional skepticism, should stand alone, with the examples currently in paragraphs A27 and A29 included in guidance material that can be more effectively updated, without having to re-open the standard.

Q3 – Disagree

3. National Standard Setters

IDW
Treatment of professional skepticism

We believe that the treatment of professional skepticism in the draft is not in line with the IESBA Code of Ethics (the Code), where the Code reflects the work done on professional skepticism by the Professional Skepticism Joint Working Group of the IAASB, IAESB, and IESBA. In particular, paragraphs 120.13 A1 and 120.13 A2 in the Code clarify the relationships between the fundamental principles of the Code and professional skepticism by clarifying that compliance with fundamental principles supports the exercise of professional skepticism. Conversely, non-compliance with the fundamental principles results in the primary impediments to the appropriate exercise of appropriate professional skepticism. The current draft fails to appropriately recognize this by drawing direct links between the impediments and professional skepticism without linking these impediments to non-compliance with the fundamental principles in the Code. The importance of improving the links between the Code and professional skepticism was one of the main conclusions drawn by the Joint Working Group.

Instances of not drawing the required links to the fundamental principles in the Code are included in our response to Question 3 in the Appendix to this comment letter.

We refer to the section in the body of our comment letter entitled “Treatment of professional skepticism”, in which we explain why we do not support the material on the appropriate exercise of professional skepticism in managing quality at engagement level because the material is not in line with the Code due to not drawing the required links to the fundamental principles in the Code.

Instances of not drawing the required links to the fundamental principles in the Code include:

- Paragraph 7, in which reference is made to bias without linking this to lack of objectivity, and reference is made to resource constraints without linking this to lack of competence and due care
- Paragraph A27, in which the first three bullet points are not linked to lack of due care, the fourth bullet point is not linked to lack of competence and due care, and the last two bullet points are not linked to lack of objectivity
- Paragraph A28, in which biases are not linked to lack of objectivity
- Paragraph A29, in which the first, sixth, seventh and eighth bullet points are not linked to supporting due care, the second bullet point is not linked to supporting objectivity, and the third, fourth and fifth bullet points are not linked to supporting competence.