IAESB: Professional Skepticism Literature and Resources Review

Preamble

Regulators, academics and audit firms are increasingly focusing their attention on advancing the understanding and application of professional skepticism (PS). A Professional Skepticism Working Group (PSWG) has been established comprising representatives from the International Audit and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of PS, and enable the three independent Standard-Setting Boards (SSBs) to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance PS. Additionally, the IAESB has established a Professional Skepticism task force (Taskforce) to help determine possible activities that the IAESB should consider in response to the PSWG initiative and other SSBs actions. Overall, the Taskforce’s focus is to make recommendations to the IAESB on how to improve the application of PS by professional accountants\(^1\), this includes engagement partners\(^2\), in relation to education and specifically the International Education Standards (IESs).

The 2017-2021 IAESB Strategy and 2017-2018 Work Plan includes the objective to explore opportunities to improve the application of PS by professional accountants and engagement partners, which serves the public interest by enhancing the quality of financial reporting and the soundness of financial information used for decision-making. Planned project activities by the IAESB include:

- Engaging stakeholders to explore the implications of expanding the concept of PS to apply to all professional accountants and not just those professional accountants engaged in the audit profession;
- Assessing whether the IESs need to be amended to align the concept of PS to the fundamental principles of the IESBA’s Code of Ethics for Professional Accountants;
- Enhancing the learning outcomes of the IESs to improve the application of PS; and
- Engaging stakeholders in identifying education and training good practices to develop the skills that will enhance the application of PS and mitigate impediments, such as bias.

Current State of the IESs and Professional Skepticism

IES 3, Initial Professional Development – Professional Skills identifies a ‘personal’ competence area with an associated learning outcome being ‘apply PS through questioning and critically assessing all information’. IES 4, Initial Professional Development – Professional Values, Ethics and Attitudes identifies PS and professional judgment as a competence area with associated learning outcomes being ‘apply a questioning mindset critically to assess financial information and other relevant data’ and ‘identify and evaluate reasonable alternatives to reach well-reasoned conclusions based on all relevant facts and circumstances’. Specifically related to engagement partners, IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements stipulates PS and professional judgment as a competence area, requiring engagement partners to apply, at an advanced level, ‘a skeptical mindset and professional judgment in planning and performing an audit and reaching conclusions on which to base an audit opinion’.

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\(^1\) This is the IAESB’s term, from the 2017 Handbook: An individual who achieves, demonstrates, and further develops professional competence to perform a role in the accounting profession and who is required to comply with a code of ethics as directed by a professional accountancy organization or a licensing authority.

\(^2\) This is the IAASB’s term, from the Glossary and Handbook: The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Existing PS literature and resources

Reviews of PS literature include Nelson (2009), Hurtt, Brown-Liburd, Earley and Krishnamoorthy (2013), and Brazel and Schaefer (2015). Nelson (2009) provides a comprehensive model and literature review of PS in auditing up to 2009. Hurtt et al. (2013) synthesize published research on auditor PS spanning 1999 to 2012 to identify antecedents to skeptical judgment and skeptical action. Most recently, Brazel and Schaefer (2015) summarize research on auditor PS from 2013 to 2015 and identify future research questions. With the global accounting and auditing community’s continued interest in PS, a review of more recent literature is warranted as well as a review of PS in professional practice areas outside of audit, assurance, and related service agreements.

With the focus of many accounting courses on technical material, one of the questions posed by Brazel and Schaefer (2015) is whether entry level auditors have a proper understanding of non-financial data, a questioning mindset, and soft skills. Based on their literature review, they note the absence of studies considering the role that training can play in the development of PS. A study that does address this is Plumlee, Rixom and Rosman (2014) who train lower level auditors to use divergent and convergent thinking. While best practices and training resources exist to enhance PS (see PCAOB, 2012; Centre for Audit Quality, 2014, skepticism online courses), a comprehensive databank of such resources is not available. Research to better understand how PS is addressed in professional accounting education programs (i.e. required by a Professional Accounting Organization), accounting education programs (i.e. delivered via Higher Education providers) and during Continuing Professional Education (CPE) (i.e., employer-led or professional accounting organization programs) would be most valuable to the IAESB and accounting/auditing educators.

Associated with the literature on PS is the cognitive heuristics and bias and related psychological literature which demonstrates that individuals make decisions that depart from the optimal model of decision making in systematic ways (Prentice, 2004). These cognitive and behavioural limitations cause inefficient decision making and compromise PS. If accounting professionals are aware of how individuals arrive at intuitive judgements (Gilovich, Griffin and Kahneman, 2002) and can identify potential impediments in their own PS decision making processes and the PS decision making processes of others then improved performance within this arena should ensue.

Research Scope

The purpose of this commissioned research is to provide information to assist the IAESB’s deliberations regarding the skills and competencies needed by aspiring professional accountants and professional accountants to be more skeptical. Since the scope of the research covers all professional accountants, the research needs to cover how professional accountants who are engaged in, and those who are not engaged in, the audit profession can be more skeptical. Informed by the research, the IAESB will be better positioned to address the planned project activities (described above) and PS related matters raised by stakeholders (e.g., Financial Reporting Council, UK) such as: Should behavior be a separate competence area in the IESs? Provide a better understanding of behavioral influences on the appropriate application of PS; and How can aspiring professional accountants’ and professional

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3 This is the IAESB’s term, from the 2017 Handbook: An individual who has commenced a professional accounting education program as part of Initial Professional Development.
accountants’ skills be developed to better enable them to self-regulate their behavior and to understand and influence others’ behaviors?

The points below are the areas that are of the greatest interest to the IAESB and should be the focus of the commissioned research:

1. **Identification of the individual and team skills, competencies, and behaviors that influence a professional accountant’s ability to apply PS.** It is expected that the commissioned research will include the following:
   - Identifying and reviewing research since 2015 addressing the future research questions proposed by Brazel and Schaefer (2015) that is relevant to this issue, namely:
     - Are professional accounting education programs developing an appropriate understanding of non-financial data, a questioning mindset and soft skills by the end of Initial Professional Development (IPD)?
     - What is the role of culture in relation to PS?
   - Identifying and reviewing any relevant and contemporary research outside of the accounting and auditing sphere addressing skills, competencies and behaviors influencing the application of PS (e.g., political science, marketing).
   - Identifying and reviewing any relevant research around the impact of general education on promoting intellectual curiosity which impacts the application of PS.
   - Identifying and reviewing any relevant research around the influence of the workplace/tone at the top (i.e. the factors that might inhibit application of PS due to fear, lack of openness, etc.) on the application of PS.
   - **Identifying and reviewing relevant research on heuristics and biases (conscious and unconscious) that often serve as impediments to the application of PS.**
   - Identifying and reviewing relevant research around other psychological and behavioral skills (e.g., reading the client, evaluation of corporate culture, conscious and unconscious bias, courage, etc.) that are important in the application of PS so that it can be evaluated whether behavioral competence should be a separate competence area in the IESs.

2. **Consideration of how the skills, competencies, and behaviors that influence a professional accountant’s ability to apply PS are, and can be, developed in professional accounting education programs, accounting education programs and CPD.** It is expected that the commissioned research will include the following:
   - Identifying and reviewing relevant research regarding the extent to which a questioning mindset, heuristics and PS is covered and developed in professional accounting education programs, accounting education programs and CPD, noting exemplars.
   - Identifying and reviewing relevant research to determine whether aspiring professional accountants and professional accountants can be educated to be more skeptical. Examples of considerations the research should include the following:
     - What types of additional skills do they need?
     - Can an effective screening tool(s) be developed based on traits and characteristics that are associated with PS to determine whether aspiring
professional accountants or professional accountants can be taught to be more skeptical?
  o How do you effectively evaluate and nurture PS?
  o Whether PS is ‘innate’ (i.e. can PS be learned vs inherited PS) and is it possible to educate someone to overcome their own innate instincts?
  • Compiling a databank of existing resources available to assist aspiring professional accountants, professional accountants and auditors to develop and apply PS.

3. Synthesize information obtained via the IFAC Global Gateway (Gateway) related to PS. The IAESB Taskforce will be using the IFAC Global Gateway as a means to collect information and obtain perspectives of Gateway users related to PS. Specifically, the Taskforce is using the Gateway as a call to action to obtain:
  • Input on skills, competencies, and behaviors (behavioral competence) necessary for the development of PS in a professional accountant.
  • Input on the extent to which PS is covered and developed in professional accounting education programs and accounting education programs.
  • Examples of case studies and other learning techniques that are used to build skills to support the application of PS.

Any information collected via this Gateway call to action will be shared with the research team and will supplement the information obtained by the research team in points #1 and #2 above. This information should be incorporated by the research team into the output from the literature review, where appropriate.

Deliverables

The deliverables related to this commissioned research are:

1. An interim report that summarizes the current status of the research project and the research performed to date due 16 June 2017.
2. An executive summary and a full report of the research due 1 September 2017.
3. A complete list of the references (academic and professional) and resources informing the research due 1 September 2017.
4. A presentation of significant findings and observations at the IAESB Consultative Advisory Group (CAG) meeting and IAESB meeting which are scheduled during October/November 2017. The presentation is due 15 September 2017.