



International Accounting
Education
Standards Board

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Meeting: International Accounting Education Standards Board
Meeting Location: Radisson Blu Hotel, Nairobi, Kenya
Meeting Date: April 18-20, 2018
SUBJECT: **Professional Skepticism Literature Review – IAESB Issues Paper**

INTRODUCTION AND BACKGROUND

1. The objective of this paper is to update the IAESB (“the Board”) on the activities of the IAESB Professional Skepticism Literature Review (PSLR) Taskforce since the last Board meeting in November 2017.
2. Current members of this PSLR Taskforce are:
 - Dave Simko (Chair)
 - Sue Flis (Secretary)
 - Bruce Behn
 - Keryn Chalmers
 - Elizabeth Gammie
 - David McPeak
3. During the November 2016 meeting of the IAESB, the Board directed the Taskforce to move ahead with its recommendation to initiate a literature review to inform the PSLR Taskforce in its deliberations and in preparing future recommendations to the Board. The Board launched this literature review in March 2017. The PSLR developed a set of recommendations from the PSLR and brought them to the Board in November 2017. Additionally, prior to the November 2017 meeting, the Taskforce also prepared a survey, targeted at key stakeholder groups (FOF, PAIB and GAA Education Directors), to help inform the discussion of potential next steps related to Professional Skepticism (PS) by the IAESB. Preliminary survey results were shared with the Board in November 2017. However, all survey results were not available at the November 2017 Board Meeting.
4. The Board approved several recommended activities at the November 2017 Board meeting. These recommended activities are described below in the discussion section. This paper will update the Board on the status of the recommended activities approved at the November 2017 meeting.
5. An additional objective of this paper is to update the Board on the activities of the other standard setting Boards.
6. Relevant to this agenda item are the following agenda papers:

Agenda Item 5-1	Professional Skepticism Literature Review – IAESB Issues Paper (4/18)
Agenda Item 5-2	Thought Leadership: Role of bias on the application of PS and how to mitigate bias (4/18)
Agenda Item 5-3	Thought Leadership: How Can We Become Better Skeptics? (4/18)
Agenda Item 5-4	Personal Perspectives: How skepticism applies to all professional accountants (4/18)
Agenda Item 5-5	Personal Perspectives: Ethics, Values, & Attitudes - Professional skepticism (4/18)
Agenda Item 5-6	PS Survey Results Combined and Separate (4/18)
Agenda Item 5-7	Plan to Request Examples of Good Practices (4/18)
Agenda Item 5-8	Agenda-Item-Prof-Skepticism-Draft-Consultation-Paper (4/18)

BACKGROUND

7. As a result of discussions and agreed upon activities with the Board at the November 2017 meeting, the Taskforce has been working on the following items:
- Item 1 - Request a peer review of the Literature Review (LR) report. Once completed, the Taskforce will determine next steps regarding publication of LR;
 - Item 2 - Develop “thought leadership” or “personal perspectives” papers from the literature review to promote knowledge sharing and excellence in accounting education;
 - Item 3 - Obtain survey data from FOF and compile consolidated results from FOF, PAIBC and GAA Education Directors. Determine next steps regarding survey;
 - Item 4 - Perform an analysis of PS competencies, skills and behaviours identified in the literature review and survey against the competence areas and learning outcomes in the existing IESs; and
 - Item 5 - Develop a plan to request examples of good practices from key networks on approaches used to develop skepticism skill set as part of IPD

Board Updates (Items 1, 2, 3 and 4)

Item 1 – Request a peer review of the Literature Review (LR) report and determine next steps regarding publication of LR.

8. The Taskforce obtained a peer review of the LR. Based on this review, it is the recommendation of the Taskforce to not publish the LR under the IAESB’s name.
9. The Taskforce has decided to only extract portions of the LR for the creation of thought leadership papers and personal perspectives. See Item 2 below.

Item 2 – Develop “thought leadership” or “personal perspectives” papers from the literature review to promote knowledge sharing and excellence in accounting education.

10. The Taskforce recommended the following publications to the Board in November 2017 as a result of reviewing the literature review:
 - Prepare a personal perspective on how skepticism applies to all professional accountants (and not just auditors);
 - Prepare a thought leadership on the role of bias on the application of PS and how to mitigate bias;
 - Prepare a thought leadership on suggestions for becoming a better skeptic;
 - Prepare a thought leadership on the impact of innovation and automation on the application of PS; and
 - Prepare a thought leadership on what was learned from other professions on how to enhance the application of PS (includes situational awareness).
11. In addition to the above recommended publications, a Personal Perspective on Ethics/Professional skepticism was also prepared.
12. Two personal perspectives and two thought leadership papers (Role of bias on the application of PS and how to mitigate bias and Becoming a better skeptic) have been drafted. These are currently in various stages of completion and are included as attachments to this issues paper for the Boards reference. See Agenda Items 5-2 to 5-5.
13. It is anticipated that the remaining thought leadership papers will be completed in the second half of the year.

Item 3 - Obtain survey data from FOF and compile consolidated results from FOF, PAIBC and GAA Education Directors. Determine next steps regarding survey.

14. The Taskforce prepared a survey to obtain input from key stakeholders to supplement the PSLR and to further inform the Taskforce discussions on the proposed next steps for the IAESB. The survey was tailored to specific stakeholders which included the Forum of Firms (accounting firms), the Global Accounting Alliance (member bodies), and the PAIB Committee (professional accountants in business). Preliminary survey results were shared with the Board at the November 2017 meeting and discussed at that meeting. Subsequent to the November 2017 meeting, the Taskforce obtained the survey data from the FOFs and compiled the consolidated results from the FOF, PAIBC and the GAA Education Directors. The compiled results are included in the Boards papers for the Boards reference. See Agenda Item 5-6.
15. The Taskforce deliberated whether to expand the survey to additional survey participants or create a phase II of the survey and decided not to expand the survey at this time. The Taskforce used the results of the survey to inform their analysis of the learning outcomes in IES 2, 3, 4 and 8. See Item 4 below.

Item 4 – Perform an analysis of PS competencies, skills and behaviours identified in the literature review and survey against the competence areas and learning outcomes in the existing IESs.

16. The literature review and survey results identified skills, competencies, and behaviors that influence a professional accountant’s ability to apply PS. The Taskforce has begun to analyze

the PS skills, competencies, and behaviours identified in the literature review and survey and has compared these to the competence areas and learning outcomes in IES 2, 3, 4, and 8. The Taskforce's initial reaction is that the skills and behaviors identified in the literature review and survey are consistent with the learning outcomes in IES 2, 3, 4 and 8 (with the exception of situational awareness). However, at this time, the analysis is not complete because of the following:

- The Taskforce has concluded that it should consider the IAASB's literature review from 2009 to 2014 on skills and behaviours for professional skepticism to determine if there are additional skills and behaviors that should be integrated into the IESs.
 - The Taskforce has concluded that it should consider the role of the Bloom / Krathwohl (2002) Cognitive Process as part of the review of learning outcomes, in light of a broader set of potential enhancements to the learning outcomes based on some initial analysis provided by the CAG chair, Ray Johnson.
 - The Taskforce would like to further consider whether there are opportunities to integrate the concepts underlying situational awareness into the IESs (either directly through the learning outcomes or through implementation materials).
17. As a reminder, in November 2016 the Taskforce sought the views of the Board and the CAG on the possible confusion caused by the joint reference in the competence areas/learning outcomes related to professional judgment and professional skepticism in the IESs. The Taskforce asked the Board whether we needed to clarify/separate the competence areas/learning outcomes related to professional judgment and professional skepticism in the IESs. At that time the view was that the learning outcomes for professional judgement and professional skepticism are already separate and therefore it does not matter if they are combined into one competence area. Additionally, the CAG also indicated that it believes that IES 4 accurately describes the learning outcomes related to professional skepticism for professional accountants.
18. The Taskforce will continue to analyze the learning outcomes in IES 2, 3, 4, and 8 and consider whether any changes to the learning outcomes for skills and behaviors related to professional skepticism should be proposed, either in the short-term or as part of the post-effective date implementation review, and will update the Board at its next meeting.

DISCUSSION

1. Examples of Good Practices on Approaches used to Develop Skepticism Skill Set for IPD

Item 5 – Develop a plan to request examples of good practices from selected universities and academic networks on approaches used to develop skepticism skill set as part of IPD

19. The Taskforce met to develop a plan to request examples of good practices from selected universities and academic networks on approaches used to develop the skills that support the application of professional skepticism as part of IPD.
20. The Taskforce discussed engaging researchers to survey universities or education providers on what they are doing or plan on doing to develop a questioning mindset and softskills to support the application of professional skepticism by the end of Initial Professional Development (IPD).

Given the difficulty in reaching the right individuals and getting responses to a survey the Taskforce concluded that it did not make sense to engage researchers to survey universities or education providers.

21. Additionally, the Taskforce discussed looking outside the accounting profession regarding what other professions are doing to develop skills that support the application of professional skepticism. However, the Taskforce concluded that the IAESB was not the right group to do this task. The Taskforce concluded that this exercise is more appropriate for academics to pursue.
22. As a result the Taskforce plans to target key networks to obtain examples of good practices being used to develop a skepticism skill set as part of IPD. The Taskforces proposed plan for gathering good practices is outlined in Agenda Item 5-7.

Action Requested:

1. **Does the Board agree with the proposed plan to obtain examples of good practices from key networks on approaches used to develop skepticism as part of IPD? If not, why?**

2. Activities of Other Standard Setting Boards

23. The International Ethics Standards Board for Accountants (IESBA) plans to issue a consultation paper in May 2018 on how the Code of Ethics should address professional skepticism beyond audit and other assurance engagements. This effort was undertaken because certain stakeholders have expressed the view that the concept of professional skepticism should be relevant to all professional accountants – not just professional accountants who perform audit and other assurance engagements. The goal of this consultation paper is to inform the Ethics Board about whether there is a need for further enhancements or clarifications to the Code of Ethics related to professional skepticism.
24. Agenda item 5-8 is the IESBA consultation paper. The Consultation Paper explores:
 - The behavioral characteristics inherent in professional skepticism;
 - Whether those behavioral characteristics should be applied by all professional accountants; and
 - Whether refinements to the Code and/or other actions outside of the Code should be undertaken to address behavioral characteristics associated with the application of appropriate professional skepticism.
25. The consultation paper identifies a number of ways in which the Code might be amended or supplemented to clarify the behavioral characteristics expected of all professional accountants. These include the following:
 1. *Use International Standards on Auditing (ISA) definition* - Require all professional accountants to apply professional skepticism in the manner defined in the ISAs;

2. *Re-define professional skepticism* - Require all professional accountants to apply professional skepticism but to develop a different definition that would be appropriate for all types of professional activity;
 3. *Develop a different term and definition* – Develop a different term if it is not considered appropriate to use the term professional skepticism for all professional accountants;
 4. *Add application material to the Code* – Develop additional application material to expand upon the concepts underlying the existing fundamental principles in the Code (no new requirements or concepts in the code would be introduced); and
 5. *Add requirements and/or application material to address bias, preconception, pressure and other impediments* – Develop additional material to increase awareness of bias, preconception, pressure and other impediments.
26. Once released it is anticipated that the consultation paper will have a 90 day comment period. The IESBA is also planning three roundtable sessions in June/July 2018, one in each of North America, Europe, and Asia to discuss the issues.
27. The Board needs to determine if the IAESB should respond to this IESBA consultation paper. Once IESBA determines what enhancements to the Code of Ethics will be needed, the Board will have to evaluate whether any changes will be required to the IESs.

Action Requested:

2. **Does the Board have any significant concerns or fatal flaws with the draft IESBA consultation paper? If so, what are they?**
3. **Does the Board believe that the IAESB should respond to the IESBA's consultation paper on professional skepticism? If so, how (e.g., IAESB chair responds on behalf of IAESB)?**

PROPOSED WAY FORWARD

28. The Taskforce will consider the Board's advice and suggestions and determine a timeline for completion of the agreed upon action items and open items.