

## Professional Skepticism

### Objectives of Agenda Item

1. The objectives of the agenda item are:
  - To summarize the responses to the IAASB's Invitation to Comment (ITC), [Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits](#) in relation to professional skepticism.
  - To highlight discussions of the International Ethics Standards Board for Accountants (IESBA) relevant to the work of the Professional Skepticism Working Group (PSWG), including matters to be considered by the IESBA at its September 2016 meeting relating to the linkage between the concept of professional skepticism and the fundamental principles in the IESBA Code of Ethics for Professional Accountants (the IESBA Code).
  - To highlight discussions of the International Accounting Education Standards Board (IAESB) relevant to the work of the PSWG.
  - To present the PSWG's preliminary recommendations on the actions that could be taken by the three standard-setting boards (SSBs), individually and in coordination, to enhance the application of professional skepticism and solicit the IAASB and IESBA Consultative Advisory Groups' (CAG) views on these actions from a public interest standpoint.

### Project Status and Timeline

2. The IAASB has been taking steps towards emphasizing the importance of professional skepticism in audits of financial statements through the International Standards on Auditing (ISAs). The IAASB agreed that that professional skepticism will continue to be a focus area within its future projects. For example, more explicit references have been made to professional skepticism<sup>1</sup> within the IAASB's recently completed standard-setting projects addressing auditor reporting, the auditor's responsibility for other information, and disclosures.
3. The IAASB's [Work Plan for 2015–2016](#) further committed to give priority to the topic of professional skepticism. The PSWG, with representatives of the three independent SSBs – the IESBA and the IAESB – has been established to provide the necessary platform for collaboration among the SSBs to determine next steps with respect to professional skepticism.

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<sup>1</sup> For example, as part of the disclosures project, new application material emphasizes the concept of professional skepticism when evaluating the effect of misstatements in disclosures (see paragraph A17 of ISA 450, *Evaluation of Misstatements Identified during the Audit*. Also, ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, requires the inclusion of the statement, "As part of an audit in accordance with ISAs, we exercise professional judgment and professional skepticism throughout the audit" in the Auditor's Responsibilities for the Audit of the Financial Statement section of the auditor's report."

4. The ITC was published in December 2015 and the comment period closed on May 16, 2016. The IAASB received 87 comment letters in response to the ITC. Further detail related to the respondents is included in the IAASB CAG **Agenda Items G and G.1**, including a high-level summary of the feedback and preliminary recommendations in relation to professional skepticism.
5. The joint IAASB and IESBA CAG session in March 2016 on the topic of professional skepticism highlighted the importance of the SSBs working together to consider how the application of professional skepticism can be enhanced.

#### *Activities of Each SSB since the Release of the ITC*

##### IAASB

6. An IAASB subgroup of the PSWG has been formed in order to address the specific areas for consideration raised by the IAASB and the ISA 540<sup>2</sup> Task Force. This IAASB subgroup put forward its proposals to the IAASB on ways to enhance professional skepticism within the ISAs at its June 2016 meeting. Relevant matters from that discussion have been incorporated into **Agenda Item J3-A**.

##### IESBA

7. IESBA has expressed its commitment to consider whether there are areas within the IESBA Code where there would be benefit in elaborating on, emphasizing, or clarifying ethical considerations relating to professional skepticism in ways that would support and complement the discussion of professional skepticism in the ISAs and the International Education Standards (IESs). At its [June 2016 meeting](#), the IESBA considered the following:
  - The approach to be taken to the meaning of professional skepticism and its application.
  - The areas within the IESBA Code where there would be benefit in elaborating on, emphasizing or clarifying the role of professional skepticism.
  - How the concept of professional skepticism should be addressed in the proposed restructured Code.

##### IAESB

8. At its April 2016 meeting, the IAESB considered respondents' feedback on a question to stakeholders about what actions can be undertaken by the IAESB to improve engagement partners' and professional accountants' professional competence related to the application of professional skepticism, as set out in its December 2015 Consultation Paper (CP), [Consultation Paper, Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities](#). The IAESB agreed to defer its detailed professional skepticism discussions, and agreed to consider them jointly with the responses from the IAASB's ITC. The IAESB also established a Task Force, chaired by the joint PSWG member David Simko, to develop IAESB-specific responses to the issues raised in the response to the IAESB's CP and the IAASB's ITC. The IAESB Task Force has held two meetings since March 2016 and intends to present recommendations to be considered by the IAESB CAG and IAESB at its September and November 2016 meetings, respectively.

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<sup>2</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

### Joint Working Group (PSWG)

9. The PSWG held a two-day in-person meeting in July 2016 and discussed the feedback from respondents to the ITC, feedback obtained by IESBA from its stakeholders, and feedback on the IAESB's Consultation Paper. Due to the nature, variety and diversity of views both within the responses to the ITC and among WG members, the PSWG is continuing to deliberate a number of key issues and a consensus has not yet been reached. The PSWG recognizes the need for to take into account other feedback received by the respective SSBs in light of each Board's respective remit. This paper therefore represents the PSWG's analysis of comments on the ITC and its preliminary recommendations based on its discussions to date. The PSWG anticipates that its role to coordinate efforts across SSBs – including the consideration of potential implications of their individual approaches – will increase in importance as individual Boards seek to move forward.

### Format of the Session

10. The September 2016 session on professional skepticism will be a joint session of the IAASB and IESBA CAGs. Prof. Annette Köhler, IAASB member and Chair of the PSWG, and Richard Fleck, Deputy Chair of the IESBA and member of the PSWG, will lead the discussion on professional skepticism by presenting the material within **Agenda Item J3-A** (supported by **Agenda Item J3-B**) and **Agenda Item J3-C**. Input from the SSBs and their CAGs on key issues at an early stage is essential and will serve to further inform the PSWG's discussions and the individual SSB's decisions about what is needed in the public interest. However, it is important to note that these agenda materials have not yet been discussed with the IAASB, IESBA or IAESB and are therefore subject to change and further reflection.
11. **Agenda Item J3-D** is a reference paper that provides relevant background information about how the concept of professional skepticism is currently described and applied in the IAASB Standards, the IESBA Code, and the IAESB Standards. **Agenda Item J3-E** is a forward-looking timetable of planned activities for IESBA, IAASB, and IAESB. Both items are provided for reference only.

### Matters for CAG Consideration

12. Representatives and Observers are asked to provide their views about the issues raised within **Agenda Item J3-A**, including views on **Agenda Item J3-B**.

### Material Presented – IAASB and IESBA CAG Papers

Agenda Item J3-A	Professional Skepticism—Issues (Including Feedback to the ITC) and Joint Working Group's Preliminary Recommendations on the Proposed Way Forward
Agenda Item J3-B	Responses to Invitation to Comment—Excerpt of Impediments to Professional Skepticism and Relationship to Fundamental Principles in IESBA Code of Ethics
Agenda Item J3-C	"Professional Skepticism Strawman"—Preliminary Wording to Explain the Relationship between Professional Skepticism and the Fundamental Principles

- Agenda Item J3-D                      Background Information Paper: Current Treatment of the Concept of Professional Skepticism in IAASB and IAESB Standards, the IESBA Code, and the IAASB ITC on Audit Quality (for reference only)
- Agenda Item J3-E                      Professional Skepticism—Forward-Looking Timetable across SSBs (for reference only)