

Meeting: IESBA
Meeting Location: New York, USA
Meeting Date: December 12–15, 2016

Agenda Item

2

Professional Skepticism

Introduction

1. Throughout **Agenda Items 2, 2-A, 2-B** and **2-C**, the term, “professional skepticism (PS)” is used broadly to describe the proposals developed by the IESBA Professional Working Group. Those proposals include:
 - (a) New application material to explain the linkage between PS as defined in the International Audit and Assurance Standards Board’s (IAASB) standards and required for audits, review and other assurance engagements, and the fundamental principles/ independence: and
 - (b) A new requirement for professional accountants to apply a critical mindset when applying the conceptual framework to assist in complying with the fundamental principles.

Objectives of Agenda Item

2. To consider a project proposal with a view to approving a short-term IESBA project to respond to stakeholder calls for greater emphasis on PS in the Code.
3. To consider, and possibly approve for exposure, proposed text to emphasize PS in the restructured Code.
4. To receive an update on the activities of the tripartite PS Working Group (PSWG) and the International Auditing and Assurance Standards Board (IAASB) and International Accounting Education Standards Board (IAESB).

Working Group Members

5. The IESBA PS Working Group (IESBA WG) comprises:
 - Richard Fleck, Chair and IESBA Deputy Chair
 - Patricia Mulvaney, IESBA Member
 - Tone Maren Sakshaug, IESBA Technical Advisor
6. The tripartite PSWG comprises:
 - Prof. Annette Köhler, Chair and IAASB Member (supported by Wolfgang Böhm, IAASB Technical Advisor)
 - Richard Fleck, IESBA Deputy Chair
 - Patricia Mulvaney, IESBA Member
 - Charles E. Landes, IAASB Deputy Chair

- Susan Jones, IAASB Technical Advisor
- Dave Simko, IAESB Member
- Bernard Agulhas, IAESB Member

Activities since the Last IESBA Discussion

7. Subsequent to the September 2016 IESBA meeting, the IESBA WG held one physical meeting and two teleconferences to consider the agenda materials for this meeting. Additionally, the PSWG discussed the IESBA WG's proposals for a short-term IESBA initiative at its October 10-11, 2016 physical meeting and also provided input via email.
8. At the October 2016 meetings of the Forum of Firm and the IFAC Small and Medium Practices (SMP) Committee, participants received an update on the preliminary IESBA discussions on the topic and next steps. The IESBA will receive an oral update on the comments made during those meetings.
9. An IESBA Consultative Advisory Group (CAG) teleconference has been scheduled for December 7, 2016 to provide the CAG the opportunity to consider and provide input on the PS project proposal set out in **Agenda Item 2-C**, and proposed text in **Agenda Item 2-B**. IAASB CAG Representatives who are not members of the IESBA CAG have been invited to observe the session.
10. The Chair of the IESBA WG will brief the IESBA on the key outcomes of the CAG discussion during its December 2016 meeting.

Interaction with PSWG and Other IESBA Task Forces

11. The PSWG continues to have a role in coordinating the efforts of the SSBs, including considering the potential implications of each SSB's stand-alone activities for the other SSBs as they develop their thinking on the issues from the perspective of their individual remits. In this regard, at a November 2016 IAESB meeting, PSWG and IAESB member Mr. Simko invited the Chair of the IESBA WG to provide an update on the IESBA's discussions on the topic. The IAESB was briefed on the IESBA's plans to consider a proposal for a short-term initiative to emphasize PS in the Code at its December 2016 meeting. The October 2016 PSWG meeting draft of the proposed text was circulated to IAESB members. IAESB members were generally supportive of the approach set out in the IESBA WG's proposals. **Agenda Item 2-A** includes further discussion of some of the views expressed by IAESB members on the topic of PS during their November 2016 meeting.
12. At the IAASB meeting in December, the Chairs of the PSWG and the IESBA WG (by teleconference) intend to update the IAASB on the IESBA's proposed short-term initiative to enhance PS in the restructured Code. IESBA members will be briefed on any comments made by the IAASB during its December 2016 meeting.
13. The PSWG considered and provided input on the IESBA WG proposals set out in **Agenda Item 2-B**. The IESBA WG also obtained preliminary views about its proposals from members of the Safeguards and Structure Task Forces. The IESBA WG considered all significant issues and editorials suggested. Issues that were not expressly dealt with in the proposed text are summarized in **Agenda Item 2-A**.

Actions Requested

14. The IESBA is asked to:
- (a) Approve the short-term PS project proposal in **Agenda Item 2-C**; and
 - (b) Provide input on, and approve the proposed PS short-term text set out in **Agenda Item 2-B**, taking into account the matters for consideration presented in **Agenda Item 2-A**.

Material Presented

- Agenda Item 2-A Professional Skepticism—Issues and IESBA WG Proposals
- Agenda Item 2-B Professional Skepticism—Proposed Text
- Agenda Item 2-C Professional Skepticism—Short-term Project Proposal

Forward Timeline and Effective Date

15. The IESBA WG is of the view that the IESBA should progress the PS proposals as a project separate and distinct from its ongoing projects (i.e., Safeguards and Structure of the Code) and should therefore consult on its proposed approach through a separate exposure draft (ED). This approach will avoid confusion with the remits of the Safeguards and Structure projects. It will also facilitate a more focused consideration of any substantive feedback from respondents on the short-term ED.
16. Subject to the IESBA’s approval of the project, the following forward timeline is intended to align timeframe for finalizing the short-term PS project to that of the Structure of the Code project.

Indicative Timing	Planned Activities/ Milestones
Dec 7, 2016	<ul style="list-style-type: none"> • IESBA CAG teleconference to receive input on: (i) the short-term project proposal; and (ii) the proposed text for exposure
Dec 5-9, 2016	<ul style="list-style-type: none"> • IAASB discussion
Dec 12-15, 2016	<ul style="list-style-type: none"> • IESBA meeting to approve: (i) short-term project proposal; and (ii) proposed text for exposure
Jan 2017	<ul style="list-style-type: none"> • If necessary, an IESBA teleconference to consider any open issues and finalize proposed text for exposure • Release of a stand-alone IESBA exposure draft (ED) with a 90-day comment period
April-Sept 2017	<ul style="list-style-type: none"> • Consideration of issues raised by respondents to the IESBA ED and revisions to the short-term text
Dec 2017	<ul style="list-style-type: none"> • Approval of final proposed short-term text

17. The IESBA WG envisages that the short-term PS enhancements should have the same effective date as the restructured Code.