

## Promoting the Role and Mindset Expected of Professional Accountants Comments on ED Question 5 (Inquiring Mind)

ED Question 5:

*Do you agree with the concept of an inquiring mind as set out in the proposals in Section 120?*

The respondents' responses are divided into four groups:

1. Support with minor amendments
2. Support with more substantive amendments
3. Does not support
4. No comment

### 1. Support with minor amendments

#### 01 Abu Dhabi Accountability Authority

Yes we agree with this concept.

#### 02 Accounting and Audit Board of Ethiopia

Yes

#### 03 Basel Committee on Banking Supervision

The Committee agrees with the IESBA's proposals in the ED, in particular the proposal to require a professional accountant to behave in a manner that is consistent with the profession's responsibility to act in the public interest and the concept of an inquiring mind.

#### 08 The New Zealand Auditing and Assurance Standards Board

Yes, we agree with the proposed concept. We support the IESBA proposed approach to restrict the use of professional scepticism when discussing audit, review and other assurance engagements and support the addition of the proposed paragraph 120.5 A5 to clarify this approach.

#### 10 BDO International Limited

Yes, we agreed with the concept of an inquiring mind as set out in the proposals in Section 120.

#### 11 Crowe Global

We agree with the concept of "inquiring mind" as we regard this as a quality that would be expected of a "professional accountant".

#### 13 Ernst Young Global Limited

We fully support the preservation of the phrase "professional skepticism" for use only in an audit or assurance engagement, and we agree with including the new element to paragraph R120.5 to

have an inquiring mind. We believe that applying an inquiring mind – that is, being open and alert to the need for further investigation and considering the need to critically evaluating the information obtained – is consistent with the fundamental principles of acting with integrity, objectivity, professional competence and due care.

#### 14 Grant Thornton International Limited

GTIL agrees with the concept of an inquiring mind as set out in the proposal in Section 120. We believe the meaning description is clearly outlined to explain what is meant of an inquiring mind.

#### 16 Moore Global

We agree that the mindset of a professional accountant should be distinguished from professional scepticism exercised by an auditor given these are two distinct types of behaviours and expectations.

We agree that the concept of an inquiring mind (as opposed to questioning or critical mind or mindset) makes sense. In terms of the description contained in par 120.5 A3 copied below;

*Obtaining this understanding entails having an inquiring mind, which means:*

- a) *Being open and alert for situations and information (or the lack thereof) that might require further investigation; and*
- b) *Considering whether there is a need to critically evaluate the information obtained, having regard to the nature, scope and outputs of the professional activity being undertaken.*

Point (b) should perhaps include the clarification that the professional accountants must consider the integrity (including the source of the information and the appropriateness of its presentation), relevance and sufficiency of the information they obtained when critically evaluating it.

It is not only the nature of the professional activity that is relevant in driving the evaluation of the information obtained, but the full circumstances including the nature of the client/employer, the geography, the regulatory and economic landscape, etc.

#### 18 RSM International

Yes, we agree with the concept of an inquiring mind. We welcome the Board's decision to highlight the difference in scope between the concepts of "having an Inquiring mind" and "exercising professional skepticism".

As mentioned before, we encourage the Board to consider adding application material in Section 200 to provide guidance on how Professional Accountants in Business can apply the concept of an inquiring mind, and to emphasise that it is not only solely an issue for Professional Accountant in Public Practice.

#### 19 U.S. Government Accountability Office

We agree with the concept of an inquiring mind as set out in the proposals in Section 120.

#### 20 Association of Chartered Certified Accountants

We are generally supportive of the enhancements to the Conceptual Framework (Section 120) in relation to having an inquiring mind, awareness of bias and the importance of organisational culture. However, we challenge some aspects of these enhancements in our responses to Questions 6 and 7.

The inclusion of the term 'inquiring mind' in Section 120 is welcome and we are pleased that the IESBA has sought to distinguish between the exercise of 'professional scepticism' in performing audit and other assurance engagements and services provided by accountants in business and accountants in practice who are not auditors. That said, we are similarly pleased that the concepts are aligned and complimentary as the exercise of scepticism is a vital quality for a professional accountant. We also welcome the use of the word 'mind' as this indicates a way of thinking and suggests scalability, whereas the alternative word 'mindset' relates to a state and a set of attitudes. We believe that if the need for further investigation or critical evaluation was expressed as an expected 'mindset' of the professional accountant it would have been unenforceable.

#### 22 Botswana Institute of Chartered Accountants

We agree with introduction of inquiring mind in the Code. The concept gives requires the professional accountant to apply their mind in any given scenario without taking the Code as prescriptive.

#### **24 Consultative Committee of Accountancy Bodies**

We agree that, on the whole, the concept is well described and distinguished from the more detailed notion of professional scepticism applied in assurance engagements.

#### **27 Federación Argentina de Consejos Profesionales de Ciencias Económicas**

We agree with the proposed modifications to sections R120.5, 120.5 A1, 120.5 A2, 120.5 A3, 120.5. A4 and only partially with the modification of 120.5. A 5. In our opinion, skepticism, as defined in ISAE 3000 (Revised) is important not only for audit, review and other assurance engagement but also for when related services are performed by applying audit procedures for the agreed-upon procedures engagement as provided by ISRS 4400, to comply this requirement professional skepticism is necessary. The same happens for the compilation commitment as established by ISRS 4410.

#### **28 FAR**

FAR finds this to be a useful concept that describes an important aspect of the professional accountant's role and mindset.

#### **30 Iranian Association of Certified Public Accountants**

That notwithstanding, we strongly support the revisions particularly, introduction of the concept of an inquiring mind. and have no more comment to add.

#### **32 Institute of Chartered Accountants in England and Wales**

The concept as defined is sound and we welcome the additional clarity of including an Inquiring Mind as an explicit part of section 120. In our view, the extant requirement to consider or remain alert to whether facts and circumstances have changed, already obliges professional accountants to exercise an inquiring mind in the judgements they

reach. However, making this more explicit is likely to be helpful to for users of the Code. We agree that the inclusion of the Inquiring Mind concept within section 120 is an appropriate location, as an Inquiring Mind is a wider concept that applies across all of the fundamental principles. There is an argument to include it in sub-section 112 as it does address behaviour rather than process, which section 120 focuses more on.

#### **33 Institute of Certified Public Accountants of Uganda**

ICPAU agrees with the concept of an inquiring mind as set out in the proposals in Section 120. This is because the concept offers a clearer perception of the mindset expected of professional accountants as they perform their assignments. Professional skepticism was more suited for audits and other assurance assignments. The concept of an inquiring mind requires the professional accountant to always have a mindset that requires them to have all necessary

information regarding the situation or task at hand before making any professional judgement. Therefore the concept of an inquiring mind is more suited to encourage professional accountants work as they work in public interest.

#### **34 Institute of Chartered Accountants Of India**

We support the proposal broadly.

#### **35 Institute of Chartered Accountants of Nigeria**

Yes, we agree with the concept of an inquiring mind as set out in the proposals in Section 120. Also, an inquiring mind should not only be looking for issues but should also critically evaluate to seek the relevant answers and right solutions. We imagine this is also important.

### 36 Institute of Chartered Accountants of Scotland

In our response to IESBA's Consultation Paper: 'Professional Skepticism – Meeting Public Expectations', we suggested the term "enquiring mindset" to address the concept of 'professional scepticism' for all professional accountants.

We agree that IESBA's term 'inquiring mind' appropriately represents the challenge, the willingness to ask the right questions, 'digging deeper' aspect of the professional accountant's role. It reflects the starting point of an open mind.

### 38 Institute of Singapore Chartered Accountants

Paragraph 120.5 A5 proposes that: "When undertaking any professional activities, paragraph R120.5 requires all professional accountants to have an inquiring mind when applying the conceptual framework. Additionally, accountants performing audits, reviews and other assurance engagements are required to exercise professional skepticism as described in paragraphs 120.16 A1 and 120.16 A2."

We appreciate IESBA's proposals to introduce an "inquiring mind" as an alternative term to professional skepticism and to clarify the difference between the two terms so as not to create confusion.

The proposed text in Section 120 explains "having an inquiring mind" as:

- Being open and alert for situations and information (or the lack thereof) that might require further investigation; and
- Considering whether there is a need to critically evaluate the information obtained, having regard to the nature, scope and outputs of the professional activity being undertaken.

The concept of an "inquiring mind" requires all professional accountants to consider whether there is a need for critical analysis/evaluation, which goes beyond the need to "remain alert for new information and to changes in facts and circumstances".

In our view, an "inquiring mind" is a step up from the existing requirement, and it is a less ambiguous concept than the "impartial and diligent mindset" that was put forth in the CP for application by all professional accountants. We agree with IESBA that an "inquiring mind" is conceptually desirable and should be exemplified by all professional accountants.

### 39 Japanese Institute of certified Public Accountants

We agree with the concept.

## 2. Support with more substantive amendments

### 04 Independent Regulatory Board for Auditors

We agree with the proposals relating to an inquiring mind in Section 120.

We do acknowledge that registered auditors may find it difficult to differentiate between an inquiring mind, as per the Code, and a questioning mind, as a requirement when exercising professional scepticism.

As with professional scepticism, it may be difficult for registered auditors to demonstrate that they applied that required mindset, and in the same light, consideration of evidence on this topic may be problematic.

For ease of reference, the Board may consider including the International Auditing and Assurance Standards Board's (IAASB) definition of professional scepticism in the Code, for individuals who are not familiar with the IAASB standards.

### 05 National Association of State Boards of Accountancy

This appears to be a new concept intended to parallel the requirement that auditors exercise professional

skepticism as described in applicable audit and assurance standards. We believe IESBA should describe the desired conduct in a level of detail that the professional accountant can understand and achieve. We recommend IESBA forego use of the term "inquiring mind" (a common phrase used in advertising) or any other abbreviated term for the desired conduct which could not capture the essence of this requirement.

Does this appropriately correlate to the requirements for auditors and other professional service providers? For example, in the United States, the Statements on Standards for Tax Practice require a professional accountant to make "reasonable inquiry" when performing tax services. Technical auditing and tax standards describe how the professional accountant should achieve these goals.

## 06 United Kingdom Financial Reporting Council

Professional accountants should be satisfied with the integrity, relevance and sufficiency of information they are using, or are otherwise associated with, and, should be inquisitive about the information and conduct such assessment or investigation as may be appropriate in the circumstances. This requires the characteristics and behaviours expected of auditors and other assurance providers in applying appropriate professional scepticism. We believe that the concept of professional scepticism should apply more generally to all professional accountants, avoiding the need to introduce a 'new', overlapping, concept. Indeed, there is nothing in the definition of professional scepticism that restricts it to audit and other assurance services or that would preclude its application more generally, other than IESBA agreeing that the term 'professional scepticism' should be reserved for use only in an audit or assurance context

We believe that 'professional scepticism' could be applied more widely, with application material to address what might be 'appropriate' in different circumstances. The most important consideration is to focus on the actions, characteristics and behaviours required of a professional accountant rather than what a suitable covering term might be. Therefore, on balance, we accept the introduction of the concept of an inquiring mind. However, paragraph 120.5.A3 which leads into the explanation of the concept should be stronger than just saying "An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework-". There should also be emphasis on the need to be satisfied with the integrity, relevance and sufficiency of information an accountant is using or are associated with.

There is a significant overlap between the concepts of an inquiring mind and professional scepticism which may lead to questions about the expected behaviours in different circumstances. The Explanatory Memorandum suggests that paragraph 120.5.A5 highlights the differences in scope between 'having an inquiring mind' and 'exercising professional scepticism'. However, we believe that paragraph 120.5.A5 just identifies that all professional accountants are required to have an inquiring mind and that, additionally, accountants performing audits, reviews and other assurance engagements are required to exercise professional scepticism as described in paragraphs 120.16.A 1 and 120.16.A2. This does not highlight differences in scope but suggests that professional scepticism is something beyond an inquiring mind. Paragraphs 120.16.A1 and 120.16.A2 also do not clearly identify differences in scope but, focus on explaining how compliance with the fundamental principles supports the exercise of professional scepticism.

We recommend that paragraph A120.5.A5 be revised to make clear that there is an overlap in the concepts of an inquiring mind and professional scepticism and not that professional scepticism is something completely separate. Paragraph A.16.A 1 should also be amended to refer back to the concept of an inquiring mind.

With regard .to the other specific proposed application material for an inquiring mind, we recommend that

A120.5.A3(b) - be strengthened to say "critically evaluate the information obtained where appropriate, having regard to ...." rather than say "consider" whether there is a need to critically evaluate. Going on to take action where appropriate may be taken to be implied by the term "consider" but it is better to be more explicit, particularly from a regulatory perspective.

It should also be made clear that a critical evaluation should consider the information from a

qualitative as well as quantitative aspect.

120.5.A4 - be expanded to "consider whether other relevant information might reasonably be available and, if so, whether it should be obtained and used". This is not intended to imply an extensive search.

## 07 Accounting Professional Ethical Standards Board Australia

APESB is concerned about the unintended consequences on the definition and interpretation of Independence as there is a risk that stakeholders may infer that assurance engagements is the only instance that a Professional Accountant is required to be Independent. Based on how the profession operates in Australia, there are other instances that Professional Accountants need to be independent. Professional Accountants who act as liquidators, independent experts, and independent financial planners also must demonstrate their Independence, which includes performing their work with an appropriate degree of professional scepticism. APESB believes the concept of Independence, which incorporates professional scepticism, is not limited to assurance engagements.

APESB acknowledges that 'professional scepticism' has historically been used in the assurance context. However, professional scepticism is used widely and is also not exclusive to the accounting profession, notwithstanding its use in the auditing literature. Many other professions also apply professional scepticism when exercising professional judgement to arrive at a conclusion or forming opinions, whether they are medical professionals, lawyers or engineers. It should not be a term that can be claimed by any one profession as any professional can exhibit the relevant characteristics when performing their work.

The APESB's suite of professional standards applies to a range of non-assurance services, and many include the definition of Independence (incorporating professional scepticism), modified to reflect the parties providing the professional activities (for example, the Engagement Team).

Australian stakeholders have not raised any concerns with APESB over the past twelve years regarding the use of Independence in these standards. The definition of Independence is incorporated in the following *APESB standards*:

- *APES 215 Forensic Accounting Services*
- *APES 225 Valuation Services*
- *APES 230 Financial Planning Services*
- *APES 310 Client Monies*
- *APES 320 Quality Control for Firms*
- *APES 330 Insolvency Services*
- *APES 345 Reporting on Prospective Financial Information prepared in connection with a Public Document*
- *APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*

We agree that the concept of an inquiring role is appropriate across the profession, especially for accountants who do not need to be Independent for the professional activities they are undertaking. However, the amendments need to be appropriate across the range of all professional activities provided by Professional Accountants, and it is of critical importance to have one overarching Code for the profession.

APESB is concerned the current proposed amendments will create issues for services other than assurance engagements that require Independence.

APESB is of the view that a new paragraph should be included in the IESBA Code that states Independence is required in professional activities other than assurance engagements, and National Standard Setters may set standards covering these other professional activities (or services). This would help to eliminate any risk that stakeholders would infer that Independence is limited to assurance engagements. APESB would then be

able to link relevant Australian pronouncements that use the definition of Independence to this provision in the IESBA Code. An appropriate place for this paragraph could be immediately after proposed paragraph 120.5 A5 in the IESBA Code.

APESB agrees with the concepts underpinning an 'inquiring mind' as set out in the proposals. We agree that all Professional Accountants should be open and alert for situations and information requiring further investigation and the need to critically evaluate information obtained.<sup>9</sup> Furthermore, potentially, there is a continuum that ranges from an inquiring mind to professional scepticism. One may argue that in the case of liquidations and certain forensic investigations, the level of professional scepticism is even higher than assurance engagements.

However, APESB does not support the proposal to remove the requirement to 'remain alert for new information and to changes in facts and circumstances' from paragraph R120.5. Although it is proposed to be included as application material<sup>10</sup>, we are of the view it should remain as a requirement (in addition to including an inquiring mind) as it is an essential component of applying the conceptual framework and is an additional concept to an inquiring mind.

#### **09 Baker Tilly International**

We agree with the introduction of the concept of an "inquiring mind" applicable to all accountants and agree with IESBA that this should be distinguished from Professional Skepticism as applied by Auditors. However, we believe that all professional accountants, including PAIBs, should apply a similar level of "skepticism" when applying their "inquiring mind" to financial information. As such we believe that 120.5 A3(b) could be strengthened by amending the current text to "Critically evaluating the information obtained..." rather than merely being required to "Consider whether there is a need to critically evaluate...". Given the issue identified relating to bias, particularly automation bias, we do not believe it is appropriate that PAIBs are required to only "consider" whether they should critically evaluate information. This is especially important considering societal changes towards placing undue reliance on information from electronic sources, such as the internet, without appropriate challenge. A change to the text of 120.5 A3(b) would have a consequential impact on 120.A5 A4 where the current proposal relates to situations where an accountant might consider certain factors or circumstances.

#### **12 Deloitte Touche Tohmatsu Limited**

We agree with the broad expectation that professional accountants should approach professional activities with an impartial and diligent mindset and apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated. These concepts are already embedded in the fundamental principles of the Code, most notably the principles of objectivity and professional competence and due care.

We have previously offered our view that the concept of "professional skepticism" should not be extended beyond what is included in the auditing, review and other assurance standards. We now believe the concept of an "inquiring mind" could be interpreted as skepticism in other words. We do not consider that professional accountants should be required to question all information provided to them in every instance but the proposed concept of needing to "obtain an understanding" implies a positive action in every situation to conclude on whether further investigation is needed.

Paragraph 120 already contains a requirement to apply professional judgement, yet the new concept suggests that determining whether further "investigation" is needed is no longer related to the exercise of professional judgment. If there is a concern that professional accountants are not being sufficiently impartial and diligent in considering whether they should assess the facts on which their advice is based, we believe this is more appropriately addressed through guidance on applying professional judgment (as set out in the extant provisions).

The second bullet of paragraph 47 of the Explanatory Memorandum "[c]larifies that the relevant information

for further investigation or critical evaluation is the information already obtained (see 120.5 A3(b) and 120.5 A4, last bullet) to avoid the perception that a professional accountant must consider any information available to the accountant or any other persons.” This is an important clarification however we do not consider it has been fully articulated in Section 120 and in fact the phrase “information (or lack thereof) that might be require further investigation” (emphasis added) may be contradictory to this concept.

We suggest deleting the phrase “or lack thereof” and amending the references to “the information obtained” to the “information already obtained.”

#### 15 KPMG IFRG Limited

We agree with the concept of an inquiring mind. Within the application guidance for 120.16 we suggest adding a linkage to ISQM 1, as a firm’s system of quality management supports the exercise of professional skepticism.

#### 21 Accountancy Europe

Yes, we agree with the concept as explained in Section 120, noting though that a new concept may not always bring more clarity. Indeed, paragraph 120.5. A3 subsections a and b refer to further investigation and critical evaluation respectively, which would require additional work to be performed. Therefore, clarification is needed as to in which circumstances (i.e. some kind of threshold) this further action is to be performed. We appreciate the clear distinction made between having an inquiring mind and professional scepticism as stated in paragraph 120.5 A5.

#### 23 Chartered Accountants Australia and New Zealand

We agree with the intent behind the concept of “an inquiring mind” as set out in the proposals in section 120. However, we have reservations regarding whether the concept has yet been appropriately named or adequately described. We encourage IESBA to revisit its deliberations. Professional accountants have a responsibility to challenge matters, not just accept matters at face value, and take action, not just investigate, where appropriate. This responsibility seems to require more than just “an inquiring mind”.

We also note that, similar to the concept of professional judgement as discussed at paragraph 39 of the ED, “an inquiring mind” (or the thought processes implicit therein) is required for both the application of the conceptual framework and to achieve compliance with the fundamental principles. Therefore, while the guidance material in section 120 is welcome, further guidance material on how this concept should be used to achieve compliance with the fundamental principles would be welcome (especially in the non-assurance context – where the concept (or the more specific concept of professional skepticism) has not previously been advocated).

We note, however, that this new concept may be challenging to enforce as it may not always result in observable behaviours. Current R120.5 (b) “remain alert of new information and to changes in facts and circumstances” is much more enforceable. Therefore, from an enforceability perspective, it would be useful to retain this requirement in addition to introducing the new concept.

#### 25 CPA Australia Ltd

CPA Australia is not convinced that the term ‘inquiring mind’ encapsulates the appropriate mindset of a PA. An inquiring mind is a softer concept than a ‘sceptical’ or ‘questioning’ mindset. An inquiring mind is interested and eager to learn more about a situation or set of facts without necessarily exhibiting the need to question or critically examine these situations or facts. We suggest that an ‘inquiring mindset’ is at a lower level of experience and understanding of a situation or set of facts than a ‘questioning’ or ‘sceptical mindset.’ A ‘questioning’ mindset understands the technical components of a set of facts and then examines these facts for accuracy and truthfulness. A sceptical mindset approaches a situation or set of facts with doubt. Whilst CPA Australia acknowledges that the term ‘Professional Scepticism’ is a defined term in the Auditing

Standards, we contend that this is not a significant reason to quarantine the term from applicability in other disciplines of the accounting profession, such as for example, insolvency and liquidation services. The concept of professional scepticism is not unique to the accounting profession and is widely used in other professions including law, medicine, risk management, data analytics, statistics, consulting, and engineering.

CPA Australia acknowledges that a sceptical mindset may not be appropriate for engagements other than audit or insolvency, however contends that an inquiring mindset may only be appropriate for low level accounting tasks such as bookkeeping. CPA Australia, therefore, supports the term 'questioning mindset' which expects the PA to do more than simply learn or gather facts about circumstances. The phrase 'to question', does not imply doubt, but it also does not imply acceptance without due diligence. CPA Australia opines that a questioning mindset, strikes the right balance for PAs performing engagements other than audit and insolvency.

As the term "an inquiring mind" is not considered to be at an appropriate level for the PA, CPA Australia is not supportive of removing the requirement to "remain alert for new information and changes in facts and circumstances." CPA Australia suggests that R120.5(b) be broken down into two components:

*R120.5(b) Have an ~~inquiring~~ questioning mind; and*

*R120.5(c) Remain alert for new information and to changes in facts and circumstances; and*

*R120.5(d) Use the reasonable and informed third party test described in paragraph 120.5 A6*

## 26 Chartered Professional Accountants of Canada

We agree with the concept of an inquiring mind as set out and we received some feedback that while more junior members of the profession may find it difficult to comply in certain cultures or organizations, for example, all professional accountants must be clear on its applicability.

Additional guidance material (e.g., examples and case studies) would be helpful in more explicitly expressing the behavior expected of all professional accountants. Such additional guidance could assist in bringing into sharp focus the importance of an inquiring mind and professional skepticism as well as the impact of biases.

We believe that 120.5 A3(b) could be improved with the notion of also considering the "source" or "origin" of the information such that new wording could read as follows: Considering whether there is a need to critically evaluate the information obtained, having regard to the nature, scope, source and outputs of the professional activity being undertaken.

## 29 Hong Kong Institute of Certified Public Accountants

Agree. Section R120.5 requires professional accountants to have an inquiring mind and apply the reasonable and informed third party test when making professional judgement.

We believe the inquiring mind concept supplements the reasonable and informed third party test when professional accountants exercise judgment, and enhances professional accountants' thought process in decision making.

Professional accountants in Hong Kong are concerned that when they are being challenged on compliance with the Code, how they can demonstrate that they have complied with the requirement of having an "inquiring mind". If the expectation entails documentation on how they have applied professional judgement, it would be adding to the work load of PAIBs to document their thought process

## 31 Instituto dos Auditores Independentes do Brasil

Yes, we agree with the concept of an inquiring mind. However, we would suggest a connection between this proposal concept "inquiring mind" with the examples of bias proposed in the paragraphs 100.12, since the professional accountants should also consider in their assessment when performing a judgement of the known facts and circumstances to apply properly the concept framework. In other words, the professional

accountants should be aware of the risk of bias.

In addition, in the paragraph 120.5 A3 (a), the term “further investigation” used in the proposal may be interpreted as significant procedures and relevant techniques (e.g. forensics ones) to be applied by the professional accountants prior to conclude their assessment and judgement. Some translations of the Code for other jurisdictions where English is not the primary language, a misleading may occur on this actions to be made by the professional accountants.

### 37 Institut der Wirtschaftsprüfer

We largely agree with the proposals made in Section 120 on the concept of an inquiring mind. However, we have identified two issues that require further improvement.

First, we believe that in paragraph 120.5 A3 the word “critically” should not be placed to modify the word “evaluate” because an evaluation is by definition a critical activity and the matter that requires being critical is the consideration (i.e., applying one’s mind) of whether the evaluation is needed. For these reasons, we believe that (b) should be reworded to state “Critically consider- ing whether there is a need to evaluate the information obtained”. A further improvement in meaning could be achieved by changing “critically consider- ing” (i.e., critically applying one’s mind) to have (b) read “Critically reflecting upon whether there is a need to evaluate the information obtained”.

Second, we believe that the definition of professional judgment in paragraph 120.5 A1 and in the IESBA Glossary is incomplete and is therefore not aligned with the IAASB definition. Missing is the wording included in para- graph 120.5 A2, which clarifies that exercising professional judgment is needed in order to make informed decisions about courses of action. The wording in paragraph 120.5 A2 suffers from the fact that it limits such decisions to determining the courses of action available, rather than actually choosing among reasonable courses of action. In this respect, the IAASB definition (whether in ISA 200 or in ISAE 3000 (Revised)) is more precise in that it clarifies that exercising professional judgment is about making in- formed decisions about the courses of action that are appropriate in the circumstances. The IAASB definition gets to the heart of what exercising professional judgment means: choosing an appropriate course of action from among reasonable courses of action available. Other changes could be made to align the definitions more closely without disregarding the broader scope of the IESBA definition. In this context, we do not believe that the adoption by the IAESB of the IESBA definition is an argument to appropriately augment and align the definition, particularly since the IAESB is now a defunct organization. We therefore recommend that IESBA augment the definition in the Glossary and in paragraph 120.5 A1 so that it reads as follows:

“Professional judgment involves the application of relevant training, professional knowledge, and experience within the context provided by the IESBA Code and other relevant technical and professional standards in making in- formed decisions about the courses of action that are appropriate in the circumstances of the particular professional activity and the interests and relationships involved.”

### 40 Malaysian Institute of Accountants

We agree with the concept of inquiring mind as set out in Section 120.

However, we suggest that application guidance be introduced after Section 120.5 A5 to clearly differentiate between 'inquiring mind' and 'professional skepticism'.

### 41 Royal Nederlandse Beroepsorganisatie van Accountants

In May 2016, the NBA has introduced a mandatory oath for all her members. The text of the oath is:

*'I am aware that as a professional accountant I am bound to act in the public interest.*

*I will exercise my profession with an attitude of professional skepticism. When exercising my profession as a professional accountant I am guided by fundamental principles of integ- rity, objectivity, professional competence and due care and confidentiality.*

*I will comply with the laws and regulations applicable to my profession. My professionalism implies that I will not execute any acts of which I know or ought to know that these could bring the accountancy profession into disrepute.*

*So help me God/I promise/I declare.'*

IESBA concluded in relation to the concept of professional skepticism that the Code is not the appropriate place to promote such a mission statement or oath.

We support the way forward whereby IESBA continues referring to professional scepticism in the context of audit, review and other assurance engagements only, and adds application material to the Code to explain the role and mindset expected from professional accountants.

However in our previous responses to IESBA we suggest that as part of adding application material to the code or as other explanatory material, it should be explained that the concept of professional skepticism in a generic manner applies to all PAs, but that given the long standing definition in the ISAs, IESBA has chosen to implement this concept in a different way.

In the illustration to the bylaw that implemented the oath it was explained that professional skepticism should not be read in the way it is defined in the ISA's. It is meant in a more generic manner.

The NBA has chosen this text based on a consultation from our members and others. One of the take a ways from this consultation was that our members and others who are less familiar with the definition of the ISAs (and the European Committee) find it difficult to understand that professional accountants (PAs) should not be professional sceptic in a more generic way.

#### **42 South African Institute of Chartered Accountants**

The concept of inquiring mind was discussed and, although we are not completely comfortable with the use of "inquiring mind", we considered the alternatives and agree that this would be the most appropriate. We do however question where the concept of inquiring mind ranks versus professional scepticism. In our view you could have an inquiring mind without professional scepticism, but you cannot have professional scepticism without an inquiring mind. We also questioned whether this would or should be a standalone concept

#### **43 Wirtschaftsprüferkammer**

We agree with the concept of an inquiring mind as set out Section 120.

However, in the context of Section 120, we do not agree with the application material related to professional judgment (120.5 A2 and Glossary). The description in Section 120 varies from how professional judgment is defined in the ISAs (ISA 200, paragraphs 13(k), 16, A23-27). The reasons stated in the Explanatory Memorandum (paragraph 38) for this different treatment are in our view not convincing and do not prevent a further alignment. On the contrary, to safeguard consistent application of international standards, we encourage IESBA to liaise with the IAASB to further align the description of professional judgment in the Code with the ISA's definition of the term.

### **3. Does not support**

#### **17 PricewaterhouseCoopers International Limited**

While we accept that having an "inquiring mind" is appropriate and necessary, we note that the newly restructured Code that was effective only in June this year, contained the need to "remain alert for new information and changes in facts and circumstances" as a core element of the conceptual framework (CF). This is proposed to be replaced by "Have an inquiring mind", with a related, but slightly different, concept of "Being open and alert for situations and information (or the lack thereof) that might require further investigation" relegated to application material.

We are not clear that this new concept "Have an inquiring mind" as a core element of the CF is the same. For

example, in the context of applying the provisions in Part 4A regarding the permissibility of non-assurance services, the former requirement to “remain alert for new information and changes in facts and circumstances” seems more appropriate than having an inquiring mind that might identify matters requiring further investigation.

Further, it seems unfortunate to be amending the conceptual framework in this way so soon after releasing the restructured Code, with a refined conceptual framework, not least as this will require Member Bodies and firms to further revise their guidance on application of the conceptual framework.

#### 44 IFAC Professional Accountants in Business Committee

The PAIB Committee has mixed views on the proposed concept of an “inquiring mind”. During our recent meeting, we polled the committee on whether they agreed with the concept; 26% agreed, 37% were strongly opposed, 37% were unsure or felt it needed further refinements.

The PAIB Committee’s previous view was that professional skepticism (PS) should be applicable to all accountants, including professional accountants in business. However, in accepting the IESBA’s analysis following its consultation on PS and the consensus view that PS should be reserved for auditors, the PAIB Committee considered “professional challenge” as an alternative to PS for accountants in business. This is on the basis that for professional accountants in business, it would recognize a questioning mind and being part of the team driving business success, as well as professionalism.

Conceptually, treating auditors differently to other accountants has led to endless debates on what alternative language can and cannot be used for non-auditors. The proposed changes to the requirement in paragraph R120.5 do not solve the underlying conceptual issue.

If professional skepticism applies in an audit and assurance context only, for accountants in business this means that they only have the requirement to exercise professional judgement, have an inquiring mind, and use the reasonable and informed third party test. But this is missing any form of challenge. A constructive challenge mindset is valued by boards, management, and external stakeholders. Accountants working in organizations can have an inquiring mind, as can anyone else, but they cannot take information at face value without appropriate challenge.

The content on inquiring mind has been derived from the existing content on “professional judgement”, and this causes confusion between the terms because of the cross-over.

The Exposure Draft proposes the inclusion of the ‘description’ of professional judgement in the glossary ‘in light of the importance of the concept’. However, one could argue that because of its importance, it should in fact be properly defined so it can be properly understood and evaluated. A definition of professional judgement, which applies to all accountants could potentially solve the issue of terminology without having to introduce a new concept or term. The PAIB Committee would support an explicit definition and enhanced description of professional judgement.

Other comments from the PAIB Committee on inquiring mind:

- Those that supported the concept of inquiring mind, felt that it is a more positive concept than professional skepticism.
- If the proposed text in paragraph R120.5 remains, the order of the requirements would more logically flow if it was changed to first need an inquiring mind, then use the third party test, and then exercise professional judgement.
- There is no problem with inquiring mind and curiosity as concepts in general, but it is important to put into context that this is a professional code of ethics, and at a time when the profession is under enormous pressure and scrutiny, the term “inquiring mind” is inadequate. A stronger term like ‘professional challenge’ is needed.

#### 45 IFAC Small and Medium Practices Committee

The SMPC is supportive of the IESBA's decision to reserve the term "professional skepticism" for audit and assurance activities. The Committee is also supportive of the Board exploring concepts other than professional skepticism (such as inquiring mind) to capture the behavior expected of all PAs but is not convinced it should add a standalone requirement in the way currently proposed outside of the fundamental principles.

The Committee agrees (and this has been our consistent position) that all PAs must bring certain level of diligence to their work (and this must be proportionate to their level of seniority, experience etc.) and is supportive of the Board exploring concepts other than professional skepticism to capture the behavior of all PAs. However, as noted in our earlier submission, some members consider that the current Code is already sufficiently robust and do not believe there is a need for a stand-alone requirement outside of the fundamental principles. If there is a need to reinforce the Code, there may be merit for the IESBA to consider approaching this project by highlighting through guidance material (this could be outside the Code) the characteristics which should be expected of PAs that captures the essence of an "inquiring mind"- while acting in compliance with the Code's fundamental principles. The notion is akin to not turning a blind eye when involved in a professional activity and/ or acting in a professional capacity in tandem with the actions of others.

We noted that the application material covering inquiring mind has been partly taken from the existing content dealing with "professional judgement"; this may cause inadvertent confusion because of the overlap between the terms.

We understand the rationale for the new description of professional judgment in the glossary of the Code to be appropriate for application to all PAs. However, we are concerned that the description is not more closely aligned with the definition in the IAASB standards as it introduces different concepts such as "skill", "interests and relationships" etc. The Explanatory Memorandum does not cover whether the IAASB supports the direction of this proposal. In addition, it may raise the question of whether it is now different to "business judgement" which is referred to with professional judgment each time (professional or business judgment).

#### 46 Professor Sir Andrew Likierman

The Board has been admirably transparent in the way it has sought to widen the concept of professional skepticism through one of an "inquiring mind". However:

The concept is so general that it is unclear why it should apply only to accountants, or indeed only to professionals. An inquiring mind is desirable for virtually any skilled occupation. It is very low bar for professional accountants, and not one that will convince even the milder critics of the profession.

The characteristics of an inquiring mind are subject to a wide range of interpretations. The only way to make it meaningful and workable in the context of accountancy is to make clear what constitutes an inquiring mind, and that there are criteria that can be taught, measured and monitored. For an inquiring mind it is unlikely that such tests can be found. Without a definition and tests for the criteria, the concept is destined to be confusing for those in the profession and meaningless for those outside it.

The underlying issue is that the Board has been asked to solve an insoluble problem - to turn the concept of professional skepticism based on the application of rules and requirements to one with a general application that is context-specific. The problem can be addressed through using a concept that already forms part of the professional and ethical framework - that of professional judgment.

#### **The case for using "professional judgment"**

Professional judgment is defined in 120. 5.A1 as "The application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the

particular professional activities, and the interests and relationships involved". The importance of professional judgment is illustrated by 48 references to it in the Ethics Code, with another 6 to "business or professional judgment" and more to judgment alone.

The above definition does not currently include any of the personal qualities that are central to the Board's focus in this consultation on the importance of behavioural aspects through applying Psychology and Behavioural Economics. Considering the central role of professional judgment, not only in ethics, but in every aspect of accountancy, this omission is surprising. So too is the absence of a framework which would enable the profession to train, measure and monitor professional judgment, putting it where it belongs - at the heart of professional practice.

A framework based on the wider application of judgment, to encompass the concept of an inquiring mind, is set out below. It has been devised following discussions with a range of people in all walks of life and in different countries. The application to professional judgment has followed discussions not only in accountancy, but with those in other professions. It is intended to provide a practical basis for firms to measure and monitor professional judgment, and where necessary demonstrate to others than they have done so.

The framework is only an outline. Recognising the practical difficulties of revising the existing definition of professional judgment, this could be considered as the basis for application guidance within the Code itself, or as implementation guidance outside the Code. I would be happy to support the Board on how the framework would work in practice and a more detailed exposition for judgment more generally will appear in the Harvard Business Review in January.

### **A proposed framework**

I would suggest that professional judgment is "The combination of personal qualities, relevant knowledge and experience with professional standards to form opinions and make decisions". Recognising the sensitivity of departing from the existing definition, the words "personal qualities" could be added to it. This would be compatible with the variations of the definition which already exist, such as those in the context of ISAE 3000 and CSRE 2000. Whatever the definition, judgment needs to incorporate 6 elements:

(i). What I take in

Professionals spend a great deal of time absorbing information through answers to questions, in and discussion and from written material. The quality of understanding is an important first step to form a professional judgment, including being aware of personal filters. Understanding does not necessarily improve with seniority and knowledge. Impatience, overconfidence or increasing rigidity of approach may reduce the quality of what is taken in.

(ii). Who and what I trust

This is essential to the quality of professional judgment, the more so as the use of the internet, including social media, has become pervasive. Problems often start with misplaced trust in people or data. Examples of the importance of trust are in judging the quality of data submitted for a financial plan or the professional competence of a member of the team.

(iii). What I know about this

Rich professional experience is a great source of value to professional firms and a source of pride to seasoned professionals. But even combined with knowledge, it is not enough. Professional judgment is about putting both in the context of taking a view or making a decision. The quality of this judgment will be the way in which relevant experience and knowledge can be brought to bear in a given situation, such as a cash management problem or the interpretation of variances from budget. It also means knowing one's limitations and seeking advice where necessary.

(iv). How I feel about this

Good professional judgment implies that the professional will be able to be dispassionate. But work in Psychology and Behavioural Economics has demonstrated that this cannot be taken for granted. The professional will need to be aware of, and address, his or her own biases, not least the balance between personal risk aversion and commercial uncertainty.

(v). How I choose

The combination of experience, knowledge and personal qualities comes together to formulate choices as much in day-by-day financial management as such contentious areas as the treatment of goodwill or the choice of transfer prices. Professional judgment will be demonstrated in many ways, such as applying decision analysis techniques while recognising common biases. It means ensuring that choices, including timing and incorporating risk, have been appropriately framed, and differentiate between judgments that do not involve estimation uncertainty and those that do.

(vi). How I carry it out

The professional providing an opinion or carrying through a recommendation to a decision will need to demonstrate professional judgment on turning plans into reality, as well as being able to assess those making a recommendation on implementation. An example would be an assessment of risks in the trade-off between speed and cost in the probability of an IT project being completed on time.

An inquiring mind is required throughout this framework, but especially in (i), (ii), (iv) and (v).

With clarity on professional judgment, the need for a distinction with inquiring mind in 120.5 is unnecessary. This approach also accords with the proposed revision to IES 4, which states in paragraph 9: "IFAC member bodies shall provide, through professional accounting education programmes, a framework of professional values, ethics and attitudes for aspiring professional accountants to (a) exercise professional judgment..."