

Meeting: IESBA
Meeting Location: New York, USA
Meeting Date: September 26–30, 2016

Agenda Item

7

Professional Skepticism

Objectives of Agenda Item

1. To receive feedback on 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 (PS).
2. To discuss the PS Working Group's (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 PS in their respective standards, and to solicit the IESBA's views on these actions from a public interest standpoint.
3. To consider:
 - (a) A strawman that articulates how the concept of PS could be enhanced in the Code; and
 - (b) The merit and feasibility of a short-term initiative to enhance the application of PS in the restructured Code.

PSWG Members

4. The tripartite PSWG comprises:
 - Annette Köhler, Chair, IAASB Member (supported by Wolfgang Böhm, IAASB Technical Advisor)
 - Richard Fleck, IESBA Deputy Chair
 - Tone Maren Sakshaug, IESBA Technical Advisor
 - Charles E. Landes, IAASB Deputy Chair
 - Susan Jones, IAASB Technical Advisor
 - Eric Turner, IAASB Technical Advisor
 - Dave Simko, IAESB Member
 - Bernard Agulhas, IAESB Member

Activities Since the Last IESBA Discussion

5. Subsequent to the June 2016 IESBA meeting, the joint PSWG held one physical meeting and one teleconference to develop the agenda material.

6. Input from the SSBs and their Consultative Advisory Groups (CAGs) on key issues at an early stage is essential and will serve to further inform the PSWG's discussions. Due to the nature and diversity of views both within the responses to the ITC and among PSWG members, the PSWG is continuing to deliberate a number of key issues. The agenda materials represent the PSWG's analysis of comments on the ITC and its preliminary recommendations based on its discussions to-date.
7. The PSWG recognizes the need for input from each SSB on its preliminary recommendations in light of each Board's remit. The PSWG anticipates that its role to coordinate efforts across the SSBs – including the consideration of potential implications of their individual approaches – will increase in importance as the individual Boards develop their thinking on the issues from the perspective of their respective standards.

Feedback on Matters Relevant to IESBA

8. In advance of the September 2016 IESBA meeting, views were sought from the joint IAASB and IESBA CAGs as well as from the IAASB on the PSWG's preliminary recommendations on matters relevant to IESBA, including the Strawman set out in **Agenda Item 7-C**. The Strawman is an articulation of how:
 - PS might be described in the context of the IESBA Code.
 - The IESBA Code might describe the linkage between PS and the fundamental principles.¹
 - A determination could be made about whether PS is applicable in the particular circumstances, and the considerations for applying it in the context of the IESBA Code.
 - Professional accountants might document PS.
9. The joint CAGs and the IAASB were asked about:
 - Whether they would support the preliminary recommendation for the IESBA to discuss the relationship between the fundamental principles in the Code (as well as independence) and PS, and how this relationship should be addressed within the Code;
 - Whether they believe that further analysis and dialogue are needed in order to reach an informed decision;
 - What other IESBA activities they believe would be necessary in response to the feedback received to date; and
 - The components of the Strawman, in particular, whether:
 - It appropriately described the linkage between the concept of PS and the fundamental principles set out in the Code.
 - It captures all of the components of PS and, if it does not, what should be excluded or included.
 - There are any potential implications of wording of this nature on the Code and the IAASB's standards.

¹ The document also included a placeholder for how the linkage between professional skepticism and independence might be described.

10. At the Board meeting, the IESBA will be briefed on the feedback received on the above matters from the joint CAGs and from the IAASB.

Actions Requested

11. The IESBA is asked to consider the matters relevant to the IESBA set out in **Agenda Item 7-A** (see paragraphs 4-12, 59-68 and questions 2-3).
12. In the light of this discussion, IESBA members are asked for views on whether to:
 - (a) Retain the extant PS references in the Code, and do nothing further;
 - (b) Do nothing now, but consider a separate PS project at a future date; or
 - (c) Undertake the two actions below:
 - (i) A short-term measure to emphasize PS in the proposed restructured Code.

If so, what might feasibly be included in a separate exposure draft to be issued at the same time as, or shortly after, the issuance of the Phase 2 Structure of the Code Exposure Draft scheduled for Board approval in December 2016, having regard to the need to avoid any potential unintended consequences?
 - (ii) A longer-term PS project.

Material Presented

Agenda Item 7-A	Professional Skepticism—Issues (Including Feedback to the ITC) and Joint Working Group’s Preliminary Recommendations on the Proposed Way Forward
Agenda Item 7-B	Responses to Invitation to Comment—Excerpt of Impediments to Professional Skepticism and Relationship to Fundamental Principles in IESBA Code of Ethics
Agenda Item 7-C	“Professional Skepticism Strawman”—Preliminary Wording to Explain the Relationship between Professional Skepticism and the Fundamental Principles
Agenda Item 7-D	Professional Skepticism Forward-Looking Timetable across SSBs (for reference only)
Supplement	Compilation of Comments on the ITC Pertaining to Professional Skepticism