

**Professional Skepticism—
Highlights of the Responses to the Consultation Paper and from
the Global Roundtables, and Preliminary Working Group Recommendations**

I. Background

1. Over the past few years, there have been continuing calls for the Standard Setting Boards¹ to enhance the way in which existing material in their standards addresses 'professional skepticism'. These comments were made in response to IAASB's December 2015 Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits, and certain IESBA Exposure Drafts. Comments were also made by the International Forum of Independent Audit Regulators (IFIAR), the Public Interest Oversight Board (PIOB), the IFAC PAIB Committee, and a number of representatives of the IAASB and IESBA Consultative Advisory Groups (CAGs).
2. In response to those calls, the IESBA undertook a project to develop application material to relate the fundamental principles in the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) to the concept of professional skepticism as defined and referred to in the International Standards on Auditing (ISAs). In December 2017, having completed that project, the IESBA established a Working Group to consider whether the Code should require all professional accountants (PAs) to exercise 'professional skepticism' and, if so, how that objective should be achieved. This topic was included as a pre-commitment in the IESBA's consultation paper on its proposed Strategy and Work Plan, 2019-2023, [Elevating Ethics in a Dynamic and Uncertain World](#).
3. In considering the detailed comments of stakeholders, the Working Group concluded that 'professional skepticism' is a term used by stakeholders to encompass a variety of different behavioral characteristics and that the term 'professional skepticism' means different things to different people - particularly in relation to how it should apply to PAs who practice in areas other than audit and assurance.
4. In May 2018, the IESBA issued a Consultation Paper, [Professional Skepticism – Meeting Public Expectations](#) (the Consultation Paper or CP). The CP sought views on:
 - (a) The behavioral characteristics comprised in professional skepticism;
 - (b) Whether all PAs should apply these behavioral characteristics; and
 - (c) Whether the Code should be further developed, and/or other actions outside the Code taken, to address behaviors associated with the exercise of appropriate professional skepticism.
5. The CP set out 5 possible ways, or a combination thereof, in which the IESBA might address the promotion of professional skepticism, namely by:
 - Requiring all PAs to exercise 'professional skepticism' as defined in the ISAs (Option A);

¹ The International Auditing and Assurance Standards Board (IAASB), the IESBA, and the International Accounting Education Standards Board (IAESB)

- Keeping the term ‘professional skepticism’ and develop a different definition that would be appropriate for all types of professional activity (Option B);
 - Developing a different term to use with the behavior expected of all PAs (Option C);
 - Adding additional application material to expand on the concepts underlying the fundamental principles (Option D);
 - Adding requirements and/or application material to address bias, pressure and other impediments to the proper exercise of professional judgment (Option E).
6. As of August 25, 2018, the IESBA had received about 60 responses to the CP. A list of those respondents is attached as Appendix A. A compilation of the significant views expressed in those responses is contained in **Agenda Item 7-B**.
7. The matters and questions raised in the CP were also discussed at:
- The National Standard Setters meeting in Vienna (in May 2018);
 - The Forum of Firms meeting in London (in May 2018);
 - The IFAC SMP Committee meeting in New York (in June 2018); and
 - A series of four global roundtables – in Washington, DC, U.S.A. (June 11, 2018); Paris, France (June 15, 2018); Tokyo, Japan (July 12, 2018); and Melbourne, Australia (July 16, 2018).
8. About 150 senior-level delegates participated in the roundtable events. They represented a wide range of stakeholder groups, including investors, public sector representatives, preparers, those charged with governance, national standard setters, regional and international organizations, and representatives of the accountancy profession (both those in practice and those in business). Observers included regulators and audit oversight authorities, PIOB members and staff, the IESBA CAG Chair, and members of the IESBA CAG, the IAASB and the IAESB.

II. Purpose of this Paper

9. This paper provides a high level summary of the views expressed by respondents to the CP and roundtables participants, the Working Group’s assessment of those views, and the approach that the Working Group proposes, with the Board’s approval, to take to address those views. The purpose of this paper is to generate discussions with the CAG and the Board at their September 2018 meetings. The IESBA will be asked to approve a Project Proposal at its September 2018 meeting.
10. This paper does not seek to identify or address every view expressed by respondents to the CP and participants at the roundtables (particularly where there appears to be clear support or opposition for a particular proposition). In addition, given the large number of participants at the roundtables and respondents to the CP as well as the conceptual nature of the issues, this paper does not attribute comments to particular roundtable participants or CP respondents. Instead, it focuses on synthesizing the most common views expressed.
11. Appendix B provides an overview of the participants at the roundtables, categorized by stakeholder group.

III. Summary of WG’s Assessment of Views Expressed by Respondents to the CP and at the Roundtables

12. Respondents to the CP generally began by providing an introductory comment in which they set out their overall views on the issues raised in the CP. The themes that emerged from those introductory comments can be summarized as follows:

- (i) Respondents supported the Board's initiative and the general direction of travel.**
- (ii) A clear majority thought that the term 'professional skepticism' should be reserved for use in relation to PAs in public practice undertaking audit and other assurance engagements.**
- (iii) There was mixed support for the articulation of the public expectation of PAs in the CP – namely that the public expects that information with which a PA is associated can be relied upon for its intended use. A number of Respondents to the CP did not support this proposition – either because they believe the public's expectation to be unreasonable or because they were concerned at how the proposition is drafted (and suggested wording to improve or clarify the proposition).**
- (iv) Some Respondents expressed concern that the Board was trying to address unreasonable expectations of members of the public that criticized the profession. They urged the Board to resist that temptation and avoid adding to the expectations gap.**
- (v) There was agreement that all PAs should be expected to observe the behavioral characteristics identified in the CP.**
- (vi) Most Respondents noted that those behavioral characteristics were addressed by or were inherent in the Fundamental Principles.**
- (vii) Without exception, Respondents took the view that the Fundamental Principles provide a sound foundation for those behavioral characteristics.**
- (viii) Many Respondents urged the Board to focus on how to achieve the outcome sought – namely the values and behavioral characteristics – rather than on the development of a new term and related definition.**
- (ix) Others advocated the development of a 'baseline' mindset for all PAs, with a higher (but complementary) standard being expected of those providing audit and other assurance services.**
- (x) All Respondents supported the development of application material that promoted the Fundamental Principles and how they should be applied by PAs in different circumstances.**
- (xi) Views on whether to promote the concept of 'scalability' varied.**
- (xii) Those who attended roundtables referred to the discussion about, and supported the suggestion that the Board develop an expanded introduction to the Code to include an overarching statement of purpose.**
- (xiii) There was support for the Board to develop material to address bias, pressure and other impediments to compliance with the Code.**

(xiv) Respondents highlighted the importance of education and training, and urged the Board to consider the development of material (case studies, practice notes, FAQs, etc.) outside the Code.

(xv) Respondents encouraged continued collaboration between the two other SSBs.

A. Initial Questions Asked in the CP

13. The CP sought responses to four initial questions designed to establish whether there is consensus around public expectations of PAs and how such expectations might be described.

14. **CP Question 1 – Do you agree with the premise that a key factor affecting public trust in the profession is whether information with which a PA is associated can be relied upon for its intended use?**

There was general agreement that a person who has qualified as a PA and is a member of a professional body is expected by the public to act in a professionally responsible manner, to uphold ethical requirements, and to undertake professional activities and provide advice of a higher quality than an accountant who is not professionally qualified.

Commentators supported the view that, as a result, the public expects information with which a PA is associated to be capable of being relied upon for its intended use.

A number of Respondents to the CP did not support this proposition – either because they believe the public's expectation to be unreasonable or because they were concerned at how the proposition is drafted (and suggested wording to improve or clarify the proposition).

15. **CP Question 2 – Do you agree with the behavior associated with public expectations of professional accountants set out in paragraph 10² of the Consultation Paper?**

There was general support for the articulation of the behavior set out in paragraph 10 of the CP. Again, Respondents to the CP made suggestions as to how the proposition could be improved – either by including additional concepts (such as a reference to a 'questioning mindset' or to 'the public interest') or by improved drafting.

One particular aspect of the articulation in paragraph 10 that gave rise to comment was the use of the word 'impartial'. Commentators were concerned that that term might be inappropriate and/or impractical for PAs in business (PAIBs) and, more generally, conflicted with a PA's duty to perform permissible, legitimate services for a client or fulfill duties of employment.

16. **CP Question 3 – Do you agree that the mindset and behavior described in paragraph 10 should be expected of all PAs?**

There was general agreement that the mindset and behavior described in paragraph 10 should be expected of all PAs (subject to the comments received to CP Question 2 noted above).

Differing views were expressed by Respondents to the CP and by commentators at the roundtables on the appropriateness of introducing the concept of 'scalability' (see CP para 14). Some considered it important as a means of recognizing that the nature and extent of the actions taken by PAs will

² Paragraph 10 suggested that professional accountants should:

- (a) Approach professional activities with an impartial and diligent mindset; and
- (b) Apply that mindset, together with relevant professional expertise, to the evaluation of information they are associated with.

depend on a range of factors – such as the role and experience of the PA, the type of work involved, and the significance of the issue. Others thought that the concept of 'scalability' risked weakening the Code (and, potentially, other standards) by introducing a route by which PAs could justify a 'softer' approach. And some thought 'scalability' should be used to set out what could be expected of a PA undertaking a particular professional activity and thereby address unreasonable public expectations.

Interestingly, commentators further observed that the public interest would be served if all involved in the financial and corporate reporting process were to exercise the mindset and behavior described in paragraph 10 in relation to information or material they were associated with.

17. **CP Question 4** – Do you believe that the fundamental principles in the Code and the related application material are sufficient to support the behaviors associated with the exercise of appropriate 'professional skepticism'?

Discussion in response to this question was robust and supportive. Views expressed included that:

- The fundamental principles, if properly complied with, should be sufficient to achieve the behavior described in the CP and expected of all PAs.
- If there is public concern that PAs generally do not achieve the behavior expected, the fundamental principles are failing to achieve their intended purpose because PAs generally do not know or understand the behavior expected of them.
- Simply adding more application material – or additional requirements – in the Code would be unlikely to make the necessary difference and achieve general observance of the fundamental principles and achievement of the behavior expected.
- Whatever approach is taken would need to be fully supported by a program to promote the changes made and educate PAs generally. There was universal agreement that any initiative pursued by the IESBA would need the full support and involvement of the IAESB.

18. In the course of the discussions at the roundtables, a broader and more fundamental debate developed – namely whether PAs understand the core values and behavioral characteristics expected of them. As those discussions developed at each successive roundtable, it became clear that there was support for an approach that involved developing the introduction to the Code (Section 100) to better explain those values and behaviors, and to link that discussion with the fundamental principles and the conceptual framework (Sections 110 and 120).

19. Commentators at the roundtables also debated:

- The merits of developing a 'mission statement' or form of 'professional oath' that all PAs would be expected to observe. This could be along the lines of the so-called 'Hippocratic Oath' that doctors and medical professionals observe, and the statement made by professionals such as lawyers.
- The possibility of introducing such a statement or 'oath' at the beginning of the Code and then supporting that statement with appropriate application material, particularly in the sections discussing the fundamental principles and the conceptual framework.
- Whether there should be some procedure under which PAs restated their commitment to that statement or oath – for example, on renewing annually their membership of a professional body.

Although this approach was not included in the options identified in the CP (and is not generally considered in written responses to the CP), the IESBA was encouraged to investigate this approach by attendees at all the roundtables.

B. Options for Clarifying Expected Behavior Identified in the CP

20. Turning to the options identified in the CP, the views expressed by respondents can be summarized as follows:

21. **CP Question 5** – Should the IESBA require Professional Accountants to exercise ‘professional skepticism’ as defined in the ISAs?

This option received virtually no support in any forum. Commentators and respondents considered this option to be flawed for the following reasons:

- ‘Professional skepticism’ is a term of art in audit and assurance standards, and the IESBA should not interfere with the IAASB’s use of that term;
- The definition in the IAASB standards is inappropriate for use by PAs undertaking professional activities other than audit and other assurance engagements; and
- To use the IAASB definition in a non-audit and assurance context risked damaging and/or diluting an important concept in auditing and assurance standards.

22. **CP Question 6** – Should the IESBA keep the term ‘professional skepticism’ but develop a new definition that would be appropriate for all types of professional activity?

This option also received virtually no support in any forum.

In addition to arguing that the retention of the term ‘professional skepticism’ (however defined) would be open to the criticisms listed in paragraph 21, commentators and respondents:

- Rejected the idea that ‘professional skepticism’ could be regarded as a generic term; and
- Considered that there would be a substantial risk of confusion if that term were to require different behavior depending on the nature of a professional activity being undertaken.

Concerns were also expressed at the possibility that the IAASB might conclude that it had to alter its standards (e.g., by changing its terminology from ‘professional skepticism’ to ‘audit skepticism’) if the IESBA pursued this option.

23. **CP Question 7** – Should the IESBA develop a different term to capture the mindset and behavior expected of all professional accountants?

This option generated the greatest diversity of views, with respondents encouraging the IESBA to consider various different approaches, such as:

- Developing a new term and definition. This would involve the IESBA considering:
 - Whether there should be a requirement to exercise the behavior encapsulated by the new definition; or
 - To develop appropriate application material throughout the Code to reinforce the importance of exercising that behavior.

- Focusing on developing the material relating to the fundamental principles and the conceptual framework. Some respondents thought that the IESBA should include a new term as an additional element of the fundamental principles to be observed by all PAs.
 - Focusing on additional application material for the existing fundamental principles and conceptual framework (i.e., no new term or definition).
 - Considering how any new term would be translated. It transpired, for example, that when translated into German, the terms ‘critical mindset’ and ‘professional skepticism’ would result in the same German wording.
24. A number of Respondents³ to the CP thought that the IESBA should not focus on developing a term and its related definition because they doubted that the mere introduction of a new term would result in PAs acting in the way expected by the public. They thought the IESBA’s priority should be to focus on the actions, values and behaviors necessary to meet the expectations of users of information.⁴ They suggested that this would necessitate a focus on:
- The actions expected of PAs to meet the objectives of an engagement and the needs of users of any outputs from that engagement;
 - How PAs might assess their adherence to those values and behaviors; and
 - How best to evidence the observance of those values and behaviors.
25. Many commentators attending the roundtables noted that the concerns in relation to developing a new term would be addressed if the IESBA were to develop the introduction to the Code to highlight the core values and behavioral characteristics expected of all PAs and then add supporting material, as appropriate, throughout the Code.
26. **CP Question 8 – Should the IESBA add additional application material to expand on the concepts underlying the fundamental principles?**

Respondents to the CP and commentators recognized that if the IESBA takes any steps to address the concerns raised in the CP, it would be essential to support actions taken by including appropriate application material in relevant parts of the Code.

Views expressed by respondents and commentators suggest that the Fundamental Principles (and the Conceptual Framework) provide a foundation for the behavioral characteristics identified in the CP. As such, there was unanimous support for the proposition that the IESBA should develop application material that would ‘bring to life’ those provisions in the Code and provide guidance as to how they apply to PAs in differing roles and circumstances. In advancing this view, Respondents recommended the use of case studies, practice notes, FAQs, etc. and, in so doing, promote observance of those vital elements of the Code.

³ Including, for example, the UKFRC, ICAS, CIMA, and ICAEW

⁴ The expectations of users were summarized as “high quality, robust, and reliable information to use for making decisions.”

27. **CP Question 9** – What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21 (of the CP)?

Respondents to the CP and commentators at the roundtables were clear that the options in paragraphs 18 and 19 of the CP had the potential to undermine the role and importance of Professional Skepticism as a (defined) concept in ISAs and audit methodology.

Respondents and commentators were undecided as to whether the option in paragraph 20 of the CP – a new term with a new definition – would present difficulties, as much would turn on what that term and definition would be.

Respondents and commentators raised no concerns, in principle, at the possible development of additional application material in the Code (the options in paragraphs 21 and 22 of the CP).

28. **CP Question 10** - Should the IESBA add requirements and/or application material to address bias, pressure and other impediments to the proper exercise of professional judgment?

There was clear support for the development of appropriate material to address bias, pressure and other impediments to the proper exercise of professional judgment for inclusion in the Code.

IV. Working Group Assessments and Proposals

29. Following analysis of the responses to the CP and the views expressed at the roundtables, the Working Group is of the view that 'professional skepticism' has become a generic term used by stakeholders to encapsulate the behavioral characteristics expected of all PAs. In calling for all PAs to exercise 'professional skepticism', the Working Group believes stakeholders are, in fact, exhorting all PAs to fulfill their duty to the public by consistently meeting the responsibilities of their role and actively demonstrating the behavioral characteristics set out in the CP.

30. The Working Group has, therefore, debated how the IESBA should promote the behavioral characteristics and actions expected of all PAs to support them in meeting public expectations in a more consistent and effective manner.

31. Subject to the views of the Board, the Working Group proposes that the Board approve a project to

- Develop material for inclusion in the Code that:
 - (a) Describes the purpose and role of the PA and the behavioral characteristics⁵ expected of all PAs for inclusion in Section 100;⁶
 - (b) Explains the linkage between the purpose, role and behavioral characteristics and, in particular, the fundamental principles (Section 110) and the conceptual framework (Section 120);
 - (c) Promotes the PA's role and behavioral characteristics throughout the Code. This is likely to be particularly appropriate in those areas of the Code that cite the exercise of professional judgment; and

⁵ In this context, the Working Group proposes to recognize the importance of PAs 'standing their ground when facing pressure to do otherwise'.

⁶ The Working Group notes that earlier editions of the Code (e.g., that issued in 2001) began with a substantive introduction that discussed the role of PAs.

- (d) Amplifies the way the Code addresses bias, pressure and other impediments.
 - Consider whether Section 100 should set out to whom the Code applies and the importance of firms promoting compliance with the Code within the firms themselves;
 - Investigate the feasibility of developing a ‘mission statement’ or ‘oath’ for inclusion at the beginning of the Code; and
 - Include liaison, as appropriate, with:
 - The IAASB to obtain its views and input as the project Task Force’s thinking develops; and
 - The IAESB to ensure it fully supports the approach being developed and will consider the steps it can take to promote the professionalism envisaged.
32. In the course of addressing these matters, the Working Group will consider whether and, if so, how to develop material that ensures that the expectations of PAs should be seen in context. This would include recognizing:
- The relevance of an accountant’s role and experience;
 - The importance of assessing the degree of risk or sensitivity of the information involved when exercising professional judgment;
 - That a PA’s responsibility involves obtaining a sound understanding of the purpose for which the material will be used and, therefore, the needs of the user;
 - That a user’s expectation in relation to a particular engagement will depend on, and may be limited to, the level of assurance associated with that engagement; and
 - That the business environment is dynamic and therefore the importance of a principles-based approach.
33. The Working Group has developed a Project Proposal (**Agenda Item 7-C**) for consideration by the CAG and the Board, and will seek the Board’s approval of the Project Proposal at its September 2018 meeting.

Appendix A

List of Respondents to the Consultation Paper⁷

Regulators

1. Basel Committee on Banking Supervision (BCBS)
2. National Association of State Boards of Accountancy, U.S. (NASBA)
3. International Organization of Securities Commissions (IOSCO)
4. IRBA, South Africa
5. UK Financial Reporting Council

National Standard Setters

6. Accounting Professional & Ethical Standards Board Limited (APESB)
7. New Zealand Auditing and Assurance Standards Board (NZAuASB)

Firms

8. Baker Tilly International
9. BDO
10. Crowe Global (Crowe)
11. DTT
12. EY Global (EY)
13. Grant Thornton International (GT)
14. KPMG IFRG (KPMG)
15. MNP
16. PwC
17. RSM International (RSM)

IFAC Member Bodies

18. Association of Accounting Technicians (AAT)
19. ACCA
20. AICPA
21. Chartered Accountants Australia and New Zealand (CAANZ)
22. CIMA
23. CPA Canada
24. FACPCE, Argentina
25. FSR
26. HKICPA
27. ICA England & Wales (ICAEW)
28. ICA Ghana (ICAG)
29. ICA Nigeria (ICAN)
30. ICA Pakistan (ICAP)
31. ICA Scotland (ICAS)
32. ICA South Africa (SAICA)
33. ICPA Uganda (ICPAU)

⁷ As of August 25, 2018

34. ICA Zimbabwe (ICAZ)
35. IDW – Germany
36. IIA
37. IMA
38. Institute of Singapore Chartered Accountants (ISCA)
39. Iranian Association of CPAs (IranCPAs)
40. JICPA
41. Malaysian Institute of Accountants (MIA)
42. Malaysian Institute of CPAs (MICPA)
43. Royal NBA, Netherlands (NBA)
44. WPK (Germany)

Professional Accountants in Business

45. IFAC PAIB Committee (PAIBC)

Academics

46. Dr. Christine Nolder (Nolder)
47. Swinburne University of Technology, Australia (SwinburneU)
48. Thomas Ray

Others

49. Accountancy Europe (AE)
50. Center for Audit Quality, U.S. (CAQ)
51. Chartered Accountants Academy and Training Advisory Services (CAA-TAS)
52. European Federation of Accountants and Auditors of SMEs (EFAA)
53. InterAmerican Accounting Association (IAA)
54. Malcolm Coates (SA) (Coates)
55. S. Dianne Azoor Hughes (Azoor Hughes)
56. IAESB
57. IAESB CAG
58. NYSSCPA
59. IFAC SMP Committee (SMPC)
60. US GAO

Appendix B

Overview of RoundTable Participants by Stakeholder Group

Stakeholder Group	Washington DC	Paris	Tokyo	Melbourne	Total
Investors, user advocates and regulators	5	3	3	4	15
Public sector organizations	1	1	–	1	3
TCWG and preparers	4	3	4	3	14
Firms, including SMPC representatives	11	13	6	16	46
NSS and IFAC member bodies	2	10	13	16	41
Academics	3	–	2	3	8
Others, including IAASB and IAESB representatives	5	3	2	2	12
Observers (i.e., PIOB, CAG and regulators) ⁸	5	4	–	–	9
Total Participants	36	37	30	45	148

⁸ Includes regulators who expressly requested attendance as observers