

Agenda Item 7-C

Professional Skepticism “Straw Man”

Notes:

- A. The IESBA Representatives of the Professional Skepticism Working Group (PSWG) developed this document to articulate how the concept of professional skepticism might be relevant to support professional accountants' compliance with the IESBA Code of Ethics, in particular compliance with the fundamental principles and the International Independence Standards.
- B. At this stage, this document is not being presented as a specific recommendation to IESBA, but rather it is intended to provide a basis for the discussions about the topic of professional skepticism at the IAASB, IESBA, IAESB Consultative Advisory Groups (CAG) September 2016 meetings and the IAASB, IESBA and IAESB meetings that follow. In that context, the document is a starting point for describing the linkage between professional skepticism, the fundamental principles and independence.
- C. As explained at **Agenda Item 7-A**, this document is not intended to prejudge a discussion about whether the concept of professional skepticism should apply to all professional accountants. Nonetheless, some PSWG members have noted that certain paragraphs go beyond this intended purpose, and are of the view that inclusion of some paragraphs (shaded in gray below) should either be:
- Deferred and explored as part of longer-term project so as to incorporate the input from the IAASB and the IAESB; or
 - Omitted because the current reference in the Code to the concept of professional skepticism in the extant Code¹ is sufficient, and should be unchanged.
- D. The views that have been expressed in relation to paragraphs shaded in gray are summarized in the comment boxes along-side those paragraphs.
- E. [Agenda Item 4-C](#) to the June 2016 IESBA agenda meeting materials provides relevant background information about how the IAASB, IESBA and IAESB's extant standards deal with the concept of professional skepticism. It also includes a discussion of the potential implications of extending the applicability of concept of professional skepticism to all professional accountants versus to those who perform audit and assurance engagements only.

[Draft – Illustrative Language for Discussion]

Professional Skepticism, the Fundamental Principles and Independence

1. The concept of professional skepticism, the fundamental principles set out in [Section 110] of the Code, and the concept of independence are intricately linked. The exercise of professional skepticism helps a professional accountant comply with the fundamental principles of integrity, objectivity, professional competence and due care, and professional behavior, [as well as with

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1.The shaded text in paragraph 1 is intended to convey the purpose of professional skepticism in a broad sense. Some of PSWG members are of the view that this statement pre-empt a broader discussion about the applicability of the concept of professional skepticism. The feedback from the September 2016 IAASB, IESBA, IAESB CAG meetings as well as the IAASB and IESBA meetings will help inform the way forward with respect to this statement.

¹ Extant Part B, Professional Accountants in Public Practice, Section 290, *Independence – Audit and Review Engagements*, paragraph 290.6 and Section 291, *Independence – Other Assurance Engagements*, paragraph 291.5

the International Independence Standards].² Similarly, compliance with the fundamental principles enhances the professional accountant's ability to exercise professional skepticism.

2. In the context of the Code, professional skepticism is an attitude of mind that involves considering information:

- Without preconception or bias as to the relevance or credibility to be given to some or all of the available material; and
- With a questioning mind.

3. When exercising professional judgment or making decisions in the course of undertaking professional activities, for example, a professional accountant exercises professional skepticism and complies with the fundamental principle of:

- Integrity by having the courage to consistently act in a manner that is honest, in particular when new information that becomes available contradicts the professional accountant's initial judgments or conclusions about a situation, or might cause the professional accountant to otherwise be associated with misleading information;
- Objectivity by considering information without preconception and, thereby not subordinating his or her professional judgement to that of another person;
- Professional Competence and Due Care by not delivering a product or service the quality of which does not reflect the appropriate degree of questioning rigor expected of the professional accountant's training and expertise for the particular activity; or
- Professional Behavior by not being complacent and thereby, through the consequences of such complacency, bringing the profession into disrepute.

4. Application of professional skepticism is relevant to identifying, evaluating and addressing threats to compliance with the fundamental principles and the International Independence Standards. Section 120 sets out requirements and application material for identifying, evaluating and addressing threats to compliance with the fundamental principles and the International Independence Standards. The nature of actions taken to address threats varies based on the level of risks involved or the difficulty of a particular subject matter, or the level of professional judgment exercised by the professional accountant.

5. When approaching the information or other material available with professional skepticism, a professional accountant:

- Considers whether the professional accountant's own experience and competence is sufficient, or if additional resources or expertise should be brought in on the subject matter.
- Is alert to the possibility that the information has been provided to support a particular purpose that may not be ethical.

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2. This paragraph is an adaptation of the definition of professional skepticism in ISA 200 for purposes of the Code. The IESBA PSWG representatives consider that adaptation is required because the ISA 200 definition is drafted in the context of audit and assurance context engagement, with a focus on the consideration of audit evidence.

PSWG members have mixed views about retaining this paragraph. Some PSWG members have expressed concerns about the development of any description of professional skepticism that departs from the definition in ISA 200. They are of the view that this paragraph goes beyond describing the linkage between professional skepticism and the fundamental principles in the Code, and suggest that this definition either be: (i) deferred; (ii) changed to be the same as the definition in ISA 200; or (iii) omitted.

Consideration of whether to retain is subject to further deliberation by the IESBA, IAASB and IAESB, taking into account the input from their respective CAGs.

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3. The Code already include statements about independence and professional scepticism (See extant 290.6 and 291.5, and S120.10-S120 of the proposed restructured Code). Is further guidance needed in the Code to clarify the linkage between professional scepticism and independence?

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4. This paragraph is indented to convey that for purposes of the Code, professional skepticism is of particular importance to deal with more difficult ethical situations. The inclusion of this paragraph will depend on the conclusions reached about whether the concept of professional skepticism in the context of the IESBA Code should apply to all professional accountants.

² **Agenda Item 7-A** notes some of the feedback received from the March 2016 IESBA and IAASB CAG discussions about the statement in paragraph 400.1 of the December 2015 IESBA Exposure Draft, *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1* (Structure ED-1) to clarify the description of the linkage between independence and the fundamental principles. At its September 2016 meeting, the IESBA will consider revisions to this proposals to incorporate the input of respondents to Structure ED-1 and the IAASB and IESBA CAGs. Once this work stream is finalized, the PSWG and IESBA might need to consider whether and how the linkage between independence and professional scepticism should be expanded.

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- Considers whether the information that has been provided is inconsistent with other relevant, available information or with the purpose of the professional activity.
 - Considers whether there is information that has not been provided but which could or should be available.
 - Applies critical thinking in order to identify other conclusions to be drawn from the available information.
 - Takes into account the professional accountant's own experience of the subject matter and of the people involved in the transaction or subject matter.
 - Brings to bear the professional accountant's professional training, expertise and experience.
 - Exercises [courage/professional fortitude] by escalating matters that do not make sense or are clearly inconsistent with other information received, or lack the information needed to exercise professional judgment.
6. Having applied professional skepticism in considering the information available, the professional accountant exercises professional judgement and makes a decision on a reasoned basis.
7. Documentation provides evidence of the professional accountant's judgements in forming conclusions regarding compliance with ethical requirements in the Code. Accordingly, in order to demonstrate how the professional accountant has applied professional skepticism when making significant judgements and significant decisions about significant matters that are relevant to compliance with a professional accountant's ethical responsibilities, the professional accountant documents:
- The material considered, as well as the consideration given to whether there is or may be other relevant material,
 - The reliance placed on such material and why,
 - The alternative approaches or conclusions to be drawn from such material;
 - Any persons or advisers consulted; and
 - The conclusion or judgement reached.
 - [Other?]

Commented [DJ5]: Matter for Future Consideration
5. The inclusion of this paragraph will depend on the conclusions reached about whether the concept of professional skepticism in the context of the IESBA Code should apply to all professional accountants.