

**Meeting:** IESBA CAG  
**Meeting Location:** New York, NY  
**Meeting Date:** March 6, 2017

## Agenda Item

# B

### Professional Skepticism—Report-Back, Issues and Working Group Proposals

#### Objectives of Agenda Item

1. To note the report-back on the December 7, 2016 CAG discussion.
2. To obtain CAG Representatives' views on the IESBA Professional Skepticism (PS) Working Group's proposed way forward.

#### Project Status and Timeline

3. The tripartite PSWG, comprising representatives of the IESBA, the International Auditing and Assurance Standards Board (IAASB) and the International Accounting Education Standards Board (IAESB), was formed in June 2015 to consider how to improve the application of PS by auditors from the perspective of each standard-setting Board's (SSB's) perspective. The IESBA does not have a specific commitment in its Strategy and Work Plan 2014-2018 to undertake a project on PS. However, since June 2015, the IESBA has been actively contributing to the activities of the PSWG, with a view to determining whether there are areas within the IESBA Code where there would be benefit in elaborating on, emphasizing or clarifying ethical considerations relating to PS in ways that would support and complement the discussion of PS in the International Standards on Auditing (ISAs) and the International Education Standards (IESs).
4. In this regard, the IESBA has gained insights from IAASB-led initiatives aimed at enhancing PS in the context of audit engagements, including the June 2015 IAASB [panel discussion](#)<sup>1</sup> aimed at further understanding the perspectives of certain stakeholders (in particular regulators); the December 2016 IAASB-commissioned summary of [academic research](#); and the December 2015 Invitation to Comment (ITC), [Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism](#),

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<sup>1</sup> During its June 2015 meeting, the IAASB hosted a panel discussion on the topic of PS. IAASB member Prof. Annette Köhler, who chairs the PSWG, introduced the topic. The panel was comprised of: Jeremy Justin, Canadian Public Accountability Board's Representative on the International Forum of Independent Audit Regulators' Standards Coordination Working Group; Helen Munter, Division of Registration and Inspections, US Public Company Accounting Oversight Board; Doug Prawitt, Glen Ardis Professor of Accountancy, Brigham Young University; and Cindy Fornelli, Executive Director, Center for Audit Quality. The purpose of the panel discussion was to:

- Provide IAASB members with a further understanding of the issues related to auditors' application of PS in the context of a financial statement audit and raise questions with experts in this area; and
- Consider how best to address concerns that have been raised about auditors' application of PS in audits of financial statements and planned next steps.

An audio of the panel discussion is available at the [IAASB's website](#).

Quality Control and Group Audits.<sup>2</sup> Based on its work to-date, the PSWG concluded that there is an important link between the application of PS and compliance with the fundamental principles (FPs) and recommended that a description of that linkage be developed in the Code.

5. As further discussed in the Matters for CAG Consideration below, the IESBA has established a separate PS WG. This WG has been exploring actions that might be taken with respect to addressing concerns raised about PS in the context of the Code.
6. The CAG provided input on tentative proposals from the WG during a December 7, 2016 teleconference. The report back on this CAG discussion is set out below. The WG subsequently presented these tentative proposals and the main outcomes of the CAG discussion at the December 2016 IESBA meeting.
7. At its March 2017 meeting, the IESBA will be asked to:
  - Consider and approve a redrafted project proposal to develop application material to explain the linkage between the FPs in the proposed restructured Code and PS as defined in the International Standards promulgated by the IAASB.
  - Consider, with a view to approving for exposure, proposed text, revised from that presented for consideration at the December 2016 IESBA meeting, to describe the linkage between the FPs and PS.
  - Consider, with a view to approving for exposure, proposed text revised from that presented for consideration at the December 2016 IESBA meeting, to clarify the requirement for a PA to exercise professional judgment when applying the conceptual framework.

### Report Back on December 7, 2016 CAG Discussion

8. Below are extracts from the draft minutes of the December 7, 2016 CAG teleconference,<sup>3</sup> and an indication of how the WG/IESBA has responded to CAG Representatives' comments.

Matters Raised	WG/IESBA Response
PROJECT PROPOSAL AND CRITICAL MINDSET	
<p>Mss. Ceynowa, Lang and McGeachy-Colby and Mr. van der Ende suggested that the project proposal provide more context about the project and clarify the objective of the WG's proposals. In particular:</p> <ul style="list-style-type: none"> <li>• Ms. Ceynowa suggested that the project proposal clarify the issue that the project would be addressing.</li> <li>• Mss. McGeachy-Colby and Lang and Mr. van der Ende suggested that the project proposal</li> </ul>	<p>Points accepted.</p> <p>Mr. Fleck explained that the PSWG was still developing the longer-term strategy, including whether the definition of PS in the IAASB standards should be changed and, if it ought to apply to all PAs, how that change should be approached. He indicated that this would be a much larger project, likely requiring considerable research and analysis, and unlikely to be completed within the next 2-3 years. The ST proposals were intended to be a timely</p>

<sup>2</sup> The IESBA was provided a summary and a full compilation of the PS-related responses to the ITC during its September 2016 meeting. This material is available at the IESBA [September 2016 meeting webpage](#).

<sup>3</sup> The December 7, 2016 CAG minutes will be approved during the March 2017 IESBA CAG meeting.

Matters Raised	WG/IESBA Response
<p>explain how the ST project would interact with a longer term initiative that the IESBA might explore in the future. Ms. McGeachy-Colby also questioned whether there was a commitment not to revisit the proposed requirement for PAs to “apply a critical mindset,” if approved by the IESBA, once the longer-term initiative is launched.</p> <ul style="list-style-type: none"> <li>Mr. van de Ende suggested that the project proposal clarify what was intended when it explicitly stated that the proposals are not intended to preempt a longer-term discussion about whether the IAASB’s definition of PS should be reconsidered.</li> </ul>	<p>response to fill a gap in the Code in the meantime. Nevertheless, he agreed that the project proposal would benefit from setting out more clearly the interaction between the ST and longer-term initiatives. He also noted that the IAASB was contemplating changes to the ISAs, so the statement in the project proposal about not pre-empting a longer-term review of the definition of PS was meant to signal that the ST initiative would not hamper that review.</p> <p>Mr. Fleck added that the WG’s ST proposals were intended to:</p> <ul style="list-style-type: none"> <li>Explain how the ethical considerations in the Code regarding compliance with the FPs relate to the proper application of PS. He noted that explaining this linkage would enable assurance practitioners to better appreciate the full relevance of PS in the Code and would be responsive to stakeholder feedback on the IAASB’s ITC and the feedback from some Representatives during the March 2016 IESBA CAG discussion; and</li> <li>Improve on the robustness of the conceptual framework by stating in an explicit way an expectation that the public has of all PAs (including those who prepare financial statements).</li> </ul> <p>Mr. Fleck explained that the planned timing for the ST project was aligned with the anticipated completion of the proposed restructured Code.</p> <p>See also revised project proposal in <b>Agenda Item B-1</b> and revised proposed clarification to the conceptual framework set out in <b>Agenda Item B-3</b>.</p>
<p>With specific reference to the proposed requirement to apply a critical mindset:</p> <ul style="list-style-type: none"> <li>Ms. Ceynowa wondered why the requirement might address stakeholders’ concerns about auditors’ application of PS when performing financial statement audits.</li> <li>Mss. Ceynowa and Lang and Mr. van de</li> </ul>	<p>Points taken into account.</p> <p>Mr. Fleck responded that the impact assessment was in effect articulating what was already expected of PAs in that the proposed requirement would lead them to think more carefully about the circumstances in a way that would meet the public’s expectations. He noted that it was too easy under the extant Code</p>

Matters Raised	WG/IESBA Response
<p>Ende suggested that the impact assessment section of the project proposal better explain the anticipated effects of the proposed changes. In particular, they questioned whether there was value to changing the Code to include the proposed new requirement and whether it would be sufficiently impactful to drive a change in auditor behavior if the WG did not anticipate any significant increase in costs.</p>	<p>for PAs to accept information at face value. He added that it was about changing the mindset which, although such a change might not necessarily lead to much in the way of extra work, could lead to a different conclusion.</p> <p>See also the revisions to the WG’s proposed clarification to the conceptual framework discussed in the Matters for CAG Consideration section of this paper and the proposed text in <b>Agenda Item B-3</b>.</p>
<p>Mr. Sobel was supportive of the ST proposals. However, he wondered whether it was appropriate for the scope to cover PAs given that non-PAs in firms can also undertake engagements performed by PAs.</p>	<p>Support noted and point considered.</p> <p>The scope of the Code covers only PAs, including PAs in public practice (which include firms). Firms that utilize non-PAs on their engagement teams still need to comply with the requirements of the Code.</p>
<p>Ms. Elliott generally supported the direction of the proposals. With respect to the application material referring to preconception or bias affecting a PA’s judgment, she noted that this notion is very important. However, she wondered whether it might not only be the PA’s bias but also bias in the source of the information.</p>	<p>Support noted and point considered.</p> <p>The WG felt that a more detailed discussion of various aspects of bias would be better reserved for the longer-term initiative.</p>
<p>Mr. Sudo added that in his view it would be difficult for PAIBs to understand how to apply the proposed requirement to apply a critical mindset. He suggested that the WG provide examples to illustrate how PAIBs would apply the proposed requirement.</p>	<p>Point taken into account.</p> <p>The WG has revised its proposals and believes its applicability to all PAs is clearer. Reference is no longer made to “apply a critical mindset”. Refer also to the revisions to the WG’s proposed clarification to the conceptual framework discussed in the Matters for CAG Consideration section of this paper of this paper and the proposed text in <b>Agenda Item B-3</b>.</p>
<p>Ms. McGeachy-Colby noted that a PA’s good-faith reliance on information, for example, in the context of providing tax services, does not mean that the PA makes no appropriate follow up. She wondered how far a PA would be expected to go to demonstrate a critical mindset.</p>	<p>Point accepted.</p> <p>Mr. Fleck responded that the proposal was only about asking PAs to apply their minds to the situation, for example, that the right questions have been asked and that the PA is satisfied with the outcome. Accordingly, it was more about the PA’s state of mind and whether the PA has a sustainable position having thought about the situation.</p> <p>See also the revisions to the WG’s proposed</p>

Matters Raised	WG/IESBA Response
	clarification to the conceptual framework discussed in the Matters for CAG Consideration section of this paper and the proposed text in <b>Agenda Item B-3</b> .
<p>Ms. Ceynowa asked whether the WG had considered the impediments to the application of PS such as the effect of pressure, workload and trust.</p>	<p>Point taken into account.</p> <p>Mr. Fleck responded that the PSWG had given much consideration to the issue of impediments and how these arise. He noted that this issue was on the agenda but as part of the longer-term initiative.</p> <p>The WG has identified the need for longer term initiatives, including the consideration of how the Code might address some of the impediments to the application of PS. See “Looking Ahead to Longer Term PS Initiatives” section of this paper below.</p>
OTHER MATTERS	
<p>Ms. Ceynowa noted the references to the WG’s coordination efforts with others in the agenda materials, in particular the IAESB, the IAASB and IAASB CAG and suggested that the IESBA and the WG also coordinate with the IAESB CAG. She drew attention to the recent discussion of PS at the IAESB CAG, noting that some points were raised at that meeting that might be of relevance to the WG’s future considerations.</p>	<p>Points accepted.</p> <p>The WG’s proposed project proposal acknowledges the need for continued coordination with others (see <b>Agenda Item B-1</b>).</p>
<p>With respect to the reference to the implications for PAs in the public sector, Ms. Elliott suggested that the WG liaise with INTOSAI for input.</p>	

## Matters for CAG Consideration

### Background

#### *PSWG and Other SSB Activities*

9. The expectation and benefit of a coordinated response by the SSBs to the issue of professional accountants (PAs) applying appropriate PS was expressed by regulators and other respondents to the ITC.
10. The work of the PSWG has prompted discussions among members of the IESBA, IAASB, IAESB and their respective CAGs about actions that the SSBs could take, individually and in coordination, to enhance the application of PS in the short term and the longer term in their respective standards. The appendix to this paper includes a summary of the PSWG’s preliminary recommendations, one

of which being to recognize the existence of an important link between the FPs and PS.<sup>4</sup> Recognizing the limited reference to that linkage in the Code, the PSWG recommended that the IESBA consider how that linkage could be developed.

11. At their respective September November and 2016 meetings, the SSBs exchanged views about the PSWG’s preliminary recommendations and considered a “[PS strawman](#)” initially drafted by the IESBA representatives of the PSWG to consider how the proposed restructured Code might further emphasize PS.
12. From those discussions, two principal messages emerged:
  - (a) The majority of the representatives of the IESBA, IAASB and IAESB CAGs are of the view that all PAs need to apply a degree of “PS” when discharging their professional responsibilities. They expressed support for the IESBA to examine how to develop that idea in the Code. The CAGs emphasized the importance of ensuring that any proposals developed by the IESBA are scrutinized to avoid any potential unintended consequences for the IAASB’s standards.
  - (b) Most IAASB members noted that the concept of PS as defined in the IAASB’s International Standards is intended to be applied in the context of audit, review and other assurance engagements only. They cautioned that extending the applicability of PS to all PAs might result in unintended consequences of either:
    - (i) Diluting the meaning of PS in the context of audit, review and other assurance engagements, which would have negative implications for audit quality in particular; or
    - (ii) Expanding the work effort related to the provisions of other types of professional services, for example financial statement compilations and tax return preparation.<sup>5</sup>

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<sup>4</sup> The term PS is dealt with in the extant IESBA Code as part of the description of independence. See Part B, *Independence – Audit and Review Engagements* of the extant Code, Section 290, *A Conceptual Framework Approach to Independence*, paragraph 290.6; and Section 291, *Independence – Other Assurance Engagements*, paragraph 291.5.

<sup>5</sup> The WG notes that the term PS is used in a different manner in the IAESB’s IESs compared to the IAASB’s standards:

- Applicable to all PAs, IES 3, *Initial Professional Development – Professional Skills (2015)*, paragraph 7 (c) (ii) includes as a learning outcome for professional skills the “application of professional skepticism through questioning and the critical assessment of all information.”
- Applicable to all PAs, IES 4, *Initial Professional Development – Professional Values, Ethics and Attitudes*, paragraph 11 (a) (i) includes as a competency area for professional values, ethics and attitudes “professional skepticism and professional judgment.” It also describes related learning outcome as follows:
  - “Apply a questioning mindset critically to assess financial information and other relevant data; and
  - Identify and evaluate reasonable alternatives to reach well-reasoned conclusions based on all relevant facts and circumstances.”
- Applicable to audit engagement partners only, IES 8, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements* prescribes learning outcomes for PS and professional judgment that engagement partners are expected to develop and maintain through continuing professional development.

Separately, reference is made to the term “skepticism” in a July 2015 non-authoritative IAESB publication titled, [Framework for International Education Standards for Professional Accountants and Aspiring Professional Accountants](#) (the Framework). Paragraph 28 of the Framework notes that “General education helps professional accountants and aspiring accountants integrate technical competence, professional skills, and professional values, ethics, and attitudes developed through professional accounting education. It supports the developments of decision making skills, judgment, and skepticism.”

### *IESBA Deliberations*

13. The IESBA's consideration of whether and, if so, how the proposed restructured Code should be developed to enhance references to PS started broadly at the March 2016 IESBA meeting and has continued in each subsequent meeting. Throughout these discussions, the IESBA acknowledged that, whilst PS (as defined in IAASB standards) applies to PAs undertaking audit, review and other assurance engagements, the FPs apply to all PAs. Several questions were raised, including whether (a) the IAASB definition of PS should be revisited and (b) whether PS should be a mind-set that all PAs should adopt and, if so, to what extent and in what circumstances.
14. The IESBA's deliberations on the topic of PS resulted in the establishment of the IESBA WG. Over the course of IESBA discussions, IESBA members have expressed varied views, which can be summarized as follows:
  - Some are of the view that the existing reference to PS in the Code is inadequate and should be developed.
  - Others have questioned whether a PS initiative is worthwhile given the IESBA's other priorities and the existing pressures on board and staff resources.
  - Some have expressed concerns about the risks associated with undertaking a "short term" project on PS whilst there remains a possibility (if not a probability) that unidentified, longer term developments may need to be pursued collectively or individually by the IESBA, IAASB and IAESB (e.g. to revise the definition of PS).
  - Some thought that the suggestion that all PAs should apply PS (as defined by IAASB) should be a matter for a longer term project
  - Others took the view that the Code should not be silent (or rely on implied actions) as to the approach to be taken by PAs generally when considering information.
15. Taking into account the feedback from the IESBA's own discussions, the input of the PSWG, as well as a December 2016 IESBA CAG teleconference, the WG developed and presented to the IESBA at its December 2016 meeting a [PS project proposal](#) and [proposed text](#). The proposed text included:
  - New application material to explain the linkage between FPs/independence and PS as defined in the IAASB's standards (required for audit, review and other assurance engagements); and
  - A new requirement for PAs to apply a critical mindset when applying the conceptual framework to assist in complying with the FPs.
16. After discussion at the December meeting, the IESBA asked that the WG revise its project proposal and bring it back for consideration at its March 2017 meeting.

### **IESBA WG Proposals**

17. Reflecting on the feedback from the December 2016 IESBA, IESBA CAG, IAASB meetings, as well as feedback from PSWG members, the WG has amended its December proposal as follows:
  - Drafted revised proposed application material to describe the linkage between the FPs and PS. The WG concluded that the description of the linkage between independence and PS in the proposed restructured Code is adequate and appropriate.
  - Withdrew its proposal for a requirement and supporting application material to apply a critical

mindset. Proposed revisions to clarify the existing requirement to exercise professional judgment set out in Section 120<sup>6</sup> are described in the “Clarification of the Requirement to Exercise Professional Judgment in Applying the Conceptual” section of the paper below.

#### *Linkage between FPs and PS*

18. As a basis for presenting the project proposal in **Agenda Item B-1** and proposed text in **Agenda Item B-2**, the WG carefully reviewed the draft minutes of previous discussions on the topic, in particular the December 2016 IESBA and IESBA CAG meetings; the transcript of December 2016 IAASB meeting; and the feedback on the topic of PS in the December 2016 comment letter from the IFAC SMP Committee. The WG is of the view that:
- Pursuing actions to respond to suggestions that have been made with respect to enhancing the definition of PS, or changing how PS is used in the Code (e.g., require all PAs to apply PS when applying the conceptual framework) raise complex issues that require consideration by the IESBA, IAASB and IAESB in a coordinated manner over a several year time horizon. Therefore, the proposals being put forward for the IESBA’s consideration at its March 2017 meeting do not include a consideration of these suggestions.
  - In the short term, the public interest is best served if IESBA focuses its attention on emphasizing PS in the Code for the requirements that apply to audit, review and other assurance engagements only. In this regard, it is suggested that the existing references to PS in the Code, which are limited to the application of PS in audit, review and other assurance engagements, should be enhanced with additional application material explaining the linkage between the FPs and PS.
19. The proposed text in paragraph 120.13 A2 does not repeat the definitions of the FPs set out in Section 110<sup>7</sup> of the proposed restructured Code, or PS as set out in the IAASB’s standards. Rather, it provides examples to illustrate the interaction between the FPs and PS in the context of audit, review or other assurance engagements.
20. Subject to the IESBA’s consideration and approval of the project proposal and the proposed text, the WG will explain the approach that it proposes for exposure in a manner that aligns the timing for the finalization of this PS project with that of the Structure of the Code project. Doing so will facilitate the inclusion of the proposed text that explains the linkage between the FPs and PS in the proposed restructured Code.

#### **Matters for CAG Consideration**

1. Representatives are asked for views on:
  - (a) The project described in the project proposal set out in **Agenda Item B-1**; and
  - (b) The proposed text set out in **Agenda Item B-2** related to the linkage of FPs to PS, for possible exposure.

<sup>6</sup> Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework; Section 120, *The Conceptual Framework*

<sup>7</sup> Part 1, Section 110, *The Fundamental Principles*



*Clarification of the Requirement to Exercise Professional Judgment in Applying the Conceptual Framework*

21. As part of its Phase 1 work, the Safeguards Task Force developed an enhanced conceptual framework set out in Section 120. The IESBA agreed in principle the text of Safeguards Phase 1 at its December 2016 meeting. Reflecting further on the feedback received from stakeholders on the role professional judgment plays in enabling PAs to comply with the provisions of the Code, including comments received on recent IESBA projects such as Safeguards, Part C, and Long Association, the WG is of the view that clarifying the exercise of professional judgment in the context of applying the conceptual framework is an appropriate and meaningful enhancement to Section 120 of the proposed restructured Code.
22. The proposed clarification would make explicit the expectation that when PAs exercise professional judgment as required in paragraph R120.5 (a), they should obtain a clear understanding of the facts and circumstances that are known to them. The WG believes that, although this expectation may already be implicit in the requirements and application material set out in Section 120 or elsewhere in the Code, it should be stated expressly. This approach of being explicit is in line with the approach taken by both the Safeguards and the Structure of the Code Task Forces throughout their respective projects.
23. The WG believes that the proposed clarifying language set out in revised paragraphs R120.5 (a) and 120.5 A1 complements but does not expand or introduce any new requirements to the existing requirements for PAs. The WG also believes that its proposed clarification set out in **Agenda Item B-3**:
  - Aligns to the definition of professional judgment in the IAASB's standards<sup>8</sup> and is an important clarification to an already existing requirement in the Code; and
  - Will improve the PA's application of the conceptual framework, thereby enhancing the process by which the PA identifies, evaluates and addresses threats to compliance with the FPs.

**Matters for CAG Consideration**

2. Representatives are asked:
  - (a) Whether they support the proposed clarification to the enhanced conceptual framework; and
  - (b) Whether the proposed text in **Agenda Item B-3** is a meaningful addition to the proposed restructured Code.

**Interaction with Others and Forward Timeline**

24. The WG has advised the PSWG of its plans to put forward for IESBA consideration the project proposal, the proposed text to explain the linkage between the FPs and PS, and the proposed clarification of the requirement to exercise professional judgment in the enhanced conceptual framework. Subject to IESBA support for the WG's proposals and the WG's finalization of the

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<sup>8</sup> The IAASB's standards define professional judgment as "the application of relevant training, knowledge and experience, within the context provided by auditing, accounting, and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement" (see ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(k)).

proposed texts, input of a “fatal flaw” nature will be requested from the PSWG, the IAASB, and the IAESB.

25. Following receipt of the views of the PSWG, the IAASB, and the IAESB, the WG will report back to the IESBA and if points have been raised that require the IESBA's input, a conference call will be arranged in April 2017 so that those points can be considered and an approach agreed.
26. The WG then envisages the release of the exposure draft(s) by the end of April 2017. The proposed timetable is set out in **Agenda Item B-1** and is intended to align with the finalization of the proposed restructured Code.

### Looking Ahead to Longer Term PS Initiatives

27. The WG welcomes Representatives' views about other actions that the IESBA might take either alone or in coordination with the IAASB and IAESB to respond to the PS issues identified to-date, including the PSWG recommendations set out in the Appendix to this paper. Such a discussion will assist the WG's future work and will inform its discussions with the PSWG about how to respond to stakeholders' expectations with respect to PS. For example, questions have been raised about whether:
  - The references to bias in the Code might be further developed (e.g., to better explain how a PA's own bias may affect how threats to compliance with the FPs are identified, evaluated and addressed).
  - A non-authoritative publication might be developed to explain the attributes of a PA more broadly.
  - The Code might include guidance about how PAs could overcome the impediments (e.g., time pressure, lack of confidence or “courage/fortitude”, culture, and inadequate or inappropriate incentives) to compliance with the FPs. The WG notes a view that the impediments to compliance with the FPs and the application of PS are the same.
  - Further consideration might be given to harmonizing how PS is addressed in the IESBA's and IAASB's standards in comparison to the IAESB's standards.

#### Matters for CAG Consideration

3. Representatives are asked for views about how the IESBA should respond to concerns raised by its stakeholders with respect to PS in the context of:
  - (a) Applying the requirements set out in the Code; and
  - (b) Enhancing auditors' application of PS when conducting audits of financial statements.

### Material Presented

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|-----------------|--|
| Agenda Item B-1 | Professional Skepticism—IESBA Project Proposal Professional    |
| Agenda Item B-2 | Professional Skepticism—Proposed Text (Description of Linkage) |
| Agenda Item B-3 | Proposed Clarification to the Enhanced Conceptual Framework    |

**Appendix**

**PSWG Preliminary Recommendations – As of September 2016**

The following is an extract of [Agenda Item 7-A](#) to the September 2016 IESBA meeting materials and includes the PSWG’s preliminary recommendations, the basis for which is discussed in detail in that paper.

Board	Relevant Action
All 3 SSBs	<ol style="list-style-type: none"> <li>1. Using the PSWG as the mechanism to do so, jointly explore:                             <ol style="list-style-type: none"> <li>(a) In the longer term, whether it may be appropriate to extend the concept of PS beyond audit, review and assurance engagements (e.g., beyond how it is currently defined in the ISAs).</li> <li>(b) In the longer term, whether a common description explaining the interrelationships among key concepts in the SSB’s standards and the IESBA Code should be developed and, if so, how this description could be articulated.</li> <li>(c) The potential standard-setting implications of (a) and (b), including providing views about whether this might result in changes to the SSBs’ standards and the IESBA Code or whether a common description of PS could be promulgated in another way.</li> <li>(d) In the longer term, whether a fundamental change to the concept of PS is needed.</li> </ol> </li> <li>2. Continue to engage the PSWG to act as a central point for discussion of these and other issues as and when needed in relation to the discussions of the individual SSBs on matters that require coordination.</li> </ol>
IESBA	<ol style="list-style-type: none"> <li>1. Continue discussions on the relationship between PS and the FPs in the IESBA Code (as well as independence) and consider how this relationship should be addressed within the IESBA Code (e.g., in upcoming exposure drafts or with a longer term view).</li> <li>2. Explicitly address impediments to PS where possible in current and potential projects (e.g., safeguards, fees, etc.)</li> <li>3. Provide input to the PSWG’s consideration of the applicability of the concept of PS beyond audit, review and assurance engagements and the common description of PS, and consider whether further changes are needed to the IESBA Code.</li> </ol>
IAASB	<ol style="list-style-type: none"> <li>1. Strengthen requirements and guidance in key standards currently under revision to emphasize the importance of the application of PS and set forth expectations about how PS is expected to be applied (e.g., accounting estimates / ISA 540,<sup>9</sup></li> </ol>

<sup>9</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

Board	Relevant Action
	<p>risk assessment / ISA 315 (Revised), quality control (firm level) / ISQC 1,<sup>10</sup> quality control (engagement level) / ISA 220,<sup>11</sup> group audits / ISA 600<sup>12</sup>).</p> <ol style="list-style-type: none"> <li>2. Explicitly address impediments to PS where possible in current projects (e.g., in relation to quality control using the quality management approach (QMA)).</li> <li>3. Commence information gathering and initial IAASB discussions on the topics of evidence and documentation, focusing on elaborating what the phrase “a critical assessment of evidence” in the definition of PS entails (e.g., by seeking to enhance ISA 500<sup>13</sup> and other ISAs) and reconsidering requirements related to the auditor’s documentation in accordance with ISA 230,<sup>14</sup> particularly in relation to significant professional judgments made in planning and performing the audit.</li> <li>4. Provide feedback on the potential implications of the IESBA’s efforts to articulate the relationship between PS and the FPs in the IESBA Code (as well as independence), in particular how this might affect both assurance engagements and other services.</li> <li>5. Provide input to the PSWG’s consideration of the applicability of the concept of PS beyond audit, review and assurance engagements and the common description of PS, and consider whether further changes are needed to ISA 200 or other IAASB International Standards.</li> </ol>
IAESB	<ol style="list-style-type: none"> <li>1. In view of the analysis of the drivers and impediments to PS determine what future actions might be most useful to further develop professional competence (e.g., an emphasis on training, education and mentoring).</li> <li>2. Provide feedback on the potential implications of the IESBA’s efforts to articulate the relationship between PS and the FPs in the IESBA Code (as well as independence).</li> <li>3. Provide input to the PSWG’s consideration of the applicability of the concept of PS beyond audit, review and assurance engagements and the common description of PS, and consider whether further changes are needed to the IESs.</li> </ol>

<sup>10</sup> ISQC 1, *Quality Control for Firms That Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

<sup>11</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>12</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>13</sup> ISA 500, *Audit Evidence*

<sup>14</sup> ISA 230, *Audit Documentation*