

Professional Skepticism

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Working Group (PSWG) Chair

IAASB Meeting, New York, USA

Agenda Item 8

December 15, 2017



Overview of the Discussion

- Obtain the views of the IAASB on the Professional Skepticism (PS) IAASB Subgroup (the Subgroup) conclusions and recommendations related to different “mindset” concepts of professional skepticism and the use of words in the ISAs in this respect.
- Update the IAASB on the professional skepticism proposals considered by the International Ethics Standards Board for Accountants (IESBA)
- Inform the IAASB of the way forward

Considering the Need for a Fundamental Change to the Definition of PS

- At the December 2016 IAASB meeting, the IAASB Subgroup reported that it would begin analyzing the implications and potential unintended consequences of one or more of the changes to the concept of PS suggested by respondents to the ITC

June 2017

- Introducing a concept of **levels** of professional skepticism rather than the current approach

December 2017

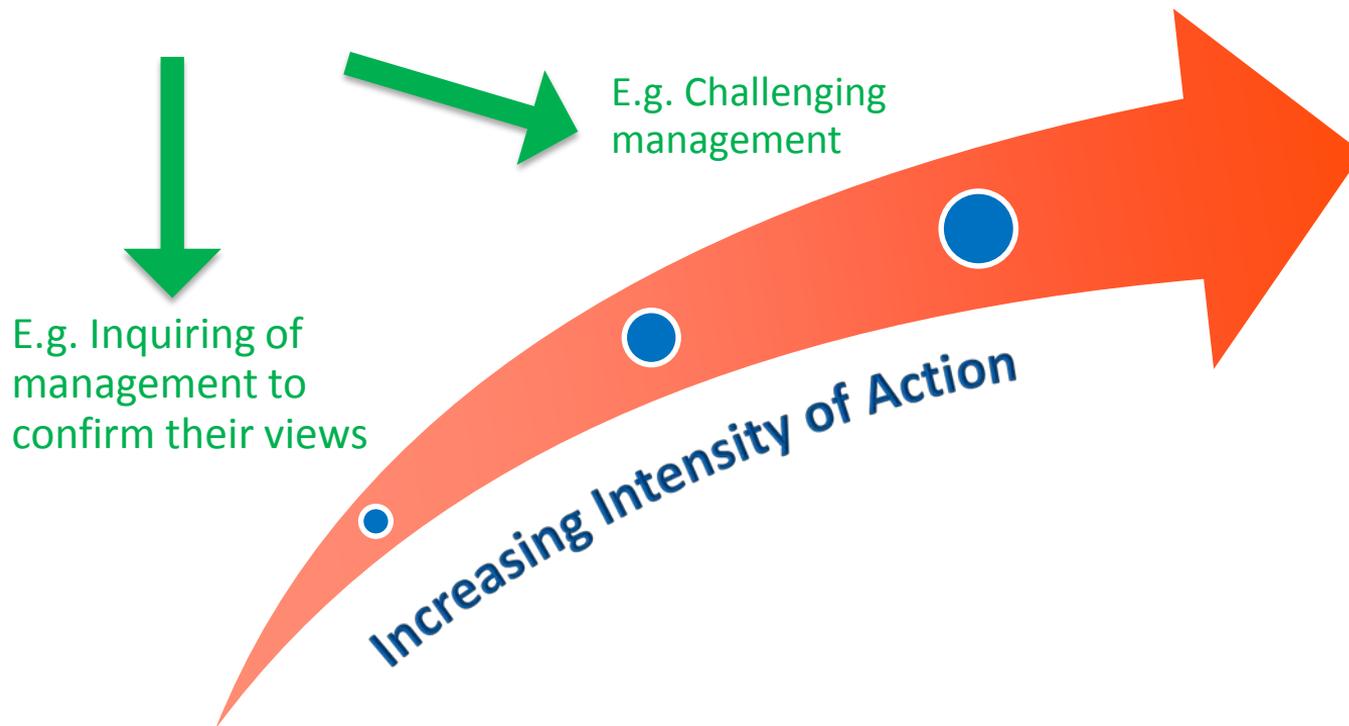
- A shift from a questioning **mindset** to a more challenging mindset or potentially to presumptive doubt.

2018

- A requirement to seek out **contradictory evidence**

Questioning Mind As Part of Professional Skepticism

Actions resulting from applying a questioning mind



Analysis of the Professional Skepticism ‘Mindset’ – Subgroup Conclusions

1. Based on its analysis, the Subgroup has concluded that that the current concept of the attitude of professional skepticism involving a “questioning mind” continues to be appropriate and that it is therefore in the public interest that it be retained in the definition of professional skepticism, rather than being replaced by other concepts suggested by some respondents to the ITC.
2. To avoid confusion among users and in translation, IAASB assurance pronouncements and agenda papers should continue to refer to “questioning mind” in a professional skepticism context, rather than to a “doubting mindset” or “challenging mind(set).”

Analysis of the Professional Skepticism ‘Mindset’ – Subgroup Recommendations

- Not to further pursue an exploration of the concepts of “presumptive doubt” or “challenging mind(set)”
- To continue to use the term “questioning mind” in the definition of professional skepticism and in IAASB assurance pronouncements and IAASB agenda papers, rather than “doubting mindset” or “challenging mind(set)”
- Since the problems with the application of professional skepticism do not appear to arise from the current wording of its definition, but with the execution of the concept, in line with the recommendations in the issues paper on “levels of professional skepticism”, to enhance the application of the concept by providing more guidance in the ISAs on how professional skepticism, and in particular, a questioning mind, has an impact on:
 - Risk assessment;
 - Risk response;
 - The evidence gathered; and
 - The evaluation of the sufficiency and appropriateness of evidence.

Analysis of the Professional Skepticism ‘Mindset’ – Recommendations (cont.)

- Use the analysis of the meaning of the term “questioning mind” in this paper as a basis for the development of application material in the ISAs to help explain the concept of “questioning mind” in relation to professional skepticism.
- To consider whether more precise terms than “challenge” can be used when seeking to express a more severe form of questioning due to the difficulties involved in the translation of the word “challenge”.

Small and Medium Practices Committee (SMPC) Feedback

- Agree with the conclusions of the Subgroup that the current concept of the attitude of professional skepticism involving a ‘questioning mind’ in the definition of professional skepticism continues to be appropriate, rather than being replaced by other concepts, such as ‘doubting mindset’ or ‘challenging mind(set)’.

Matter for IAASB Consideration

1. Does the IAASB agree with the overall conclusions and recommendations of the Subgroup regarding the “mindset concepts” and the use of wording in IAASB assurance standards and Agenda Papers? Why or why not?

IESBA Professional Skepticism Proposals

Short-Term

- Objective of last week's IESBA session (short-term)
 - Consider the final revisions to the proposed application material relating to professional skepticism and professional judgment; and
 - Approve the final proposed text relating to PS and PJ.
- PSWG members were requested to provide fatal flaw comments to the IESBA PS Task Force on the proposed text.
- IAASB PS Subgroup and the IAASB IESBA Coordination member met by teleconference on November 27, 2017 to discuss the revised IESBA proposals.
- Feedback provided to IESBA Staff, in addition to redrafting suggestions, as requested by the IESBA Staff.

Longer-Term

- Draft Consultation Paper to March 2018 IEBSA and CAG; IESBA approval June 2018

Way Forward

- Analyze the remaining potential change to the concept of professional skepticism within the ISAs proposed by respondents to the ITC—A potential requirement to seek out contradictory evidence.
- Continue to support the IAASB current standard setting projects.
- In line with stakeholder responses to the ITC, CAG, and PIOB feedback, imperative that the three SSBs continue to coordinate their approaches to fundamental issues relating to professional skepticism—using the Joint Professional Skepticism Working Group as a mechanism to do so.



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