

Professional skepticism lies at the *heart* of a quality audit

This is the first communiqué from the IAASB's Professional Skepticism Subgroup (Subgroup). The communiqué will provide updates on the IAASB's efforts to appropriately reflect professional skepticism into the IAASB standards as well as other relevant news and information on professional skepticism, including collaboration with other groups pursuing similar projects for the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB).



Exposure Drafts (ED)

ED-315 *Identifying and Assessing the Risks of Material Misstatement* was issued in July 2018. This ED quotes the requirements of ISA 200¹ for exercising professional skepticism in the introduction, thereby setting the scene for the importance of professional skepticism in the risk identification and assessment. Like ISA 540 (Revised), there are specific examples included in the application material to demonstrate where the exercise of professional skepticism is particularly relevant. For ease of identification, the explanatory memorandum discusses professional

skepticism in paragraphs 26-27 and the relevant paragraphs in the application material are identified in Appendix 1.

The IAASB is continuing to progress through the actions and revisions to ISA 220 with the aim of communications of the engagement partner and other members of the engagement team. Examples of impediments to professional skepticism, unconscious and conscious bias, and potential actions professional skepticism in the engagement team may take to address such impediments are proposed.

and thereby the overall effectiveness, of the engagement team in achieving quality at the engagement level. The behaviors associated with professional skepticism may be demonstrated through the actions and communications of the engagement partner and other members of the engagement team. Examples of impediments to professional skepticism, unconscious and conscious bias, and potential actions professional skepticism in the engagement team may take to address such impediments are proposed.



NEW STANDARDS

[ISA 540 \(Revised\), Auditing Accounting Estimates and Related Disclosures](#) was released on October 3, 2018. This standard is critical for encouraging and supporting the exercise of professional skepticism. Accounting estimates, by their very nature, are based on assumptions that can be highly subjective and may require complex methods of calculation and multiple data sources. The new standard explicitly describes the importance of professional skepticism in the introductory section of the ISA and then uses specific examples in the application material to demonstrate where the exercise of professional skepticism is particularly relevant.

¹ International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of An Audit In Accordance with International Standards on Auditing*, paragraph 15.

Activities of the IESBA and IAESB

The IESBA issued a Consultation Paper (CP), [Professional Skepticism – Meeting Public Expectations](#) in May 2018 and discussed it at [four global roundtables](#) which were held from June 11 to July 16, 2018. IAASB representatives attended each roundtable. Informed by feedback on the CP, the IESBA approved the project proposal, *Promoting the Role and Mindset Expected of Professional Accountants*, at its [September 2018](#) meeting. This project seeks to ensure that the IESBA Code promotes the role, behavioral characteristics and mindset expected of all professional accountants when performing their professional activities. In approving the project proposal, the IESBA acknowledged that the project objectives cannot be achieved by using the term “professional skepticism” in light of the clear majority view from the responses to the CP and roundtable participants that the term “professional skepticism” should be reserved for use in the context of audit and other assurance engagements. The IESBA and the IAASB will continue to liaise as this project proceeds and coordinate efforts as appropriate.

The IAESB has published three articles which are available on the International Federation of Accountants (IFAC) website. They are:

- [All Professional Accountants Need to Include Skepticism in their Mindset](#)
- [Unconscious Bias and Professional Skepticism](#)
- [How Can We Become Better Skeptics?](#)

Other Relevant Publications

The Institute of Chartered Accountants in England and Wales (ICAEW) is a member body of IFAC. The ICAEW’s report, [Scepticism: The Practitioners’ Take](#), aims to move forward the debate on skepticism by offering insights from real auditors and people who work with them. This 20-page report provides insights from practitioners and regulators and includes useful talking points for auditors, audit committees, management and investors.

As a taste, here is the first paragraph of the executive summary:

“ Professional scepticism is at the heart of what auditors do. Without it, the audit has no value. The current debate about the need for auditors to exercise more scepticism is important. But to date the quality of the debate on scepticism has been somewhat superficial. Simply calling for more scepticism, or for more documentation of it, is neither practical nor desirable. Scepticism is a means to an end, not an end in itself. Auditors cannot carry on asking questions ad infinitum, nor should they. Reporting deadlines mean that there comes a point at which it not only seems pointless to ask any more questions (either ‘just in case’ or ‘because we can’), it also becomes impractical. The problem of scepticism is one of human behaviour when working to deadlines and budgets. ”

The Path Ahead...

In response to a survey that will inform the development of a Consultation Paper on its Strategy and Work Plan for 2020–2023, the IAASB received feedback indicating that stakeholders continue to believe that professional skepticism is important and that further work is needed to understand what really drives professional skepticism. The Consultation Paper will be available for comment in early 2019 and all are encouraged to respond.

The next communique will provide an update on the work of the Subgroup in response to issues raised by respondents to the IAASB’s Invitation to Comment, [Enhancing Audit Quality: A Focus on Professional Skepticism, Quality Control and Group Audits](#) and how professional skepticism is being addressed in the IAASB’s projects on quality management.



CROSS-BOARD COMMUNICATION

Collaboration with IESBA and IAESB is pivotal to the mission of the Subgroup to provide a consistent and coordinated outcome. There are regular teleconferences between the chairs of the respective professional skepticism related projects at the IESBA, IAESB, and IAASB. This communication ensures we are aware of the respective work programs and gives an opportunity to coordinate activities and provide input into each other’s work.

If you have any comments or ideas please contact:
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