

August 15, 2018

Mr. Stavros Thomadakis
Chairman
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017

Re: IESBA Consultation Paper, Professional Skepticism – Meeting Public Expectations

Dear Stavros,

The International Federation of Accountants (IFAC) Professional Accountants in Business (PAIB) Committee values the opportunity to comment on the IESBA consultation paper, *Professional Skepticism – Meeting Public Expectations*. This response reflects the views of the PAIB Committee and those professional accountants who provide business information for internal and external purposes. In addition to the general comments below, appendix 1 contains responses to the detailed questions posed in the consultation paper.

The PAIB Committee strongly believes professional skepticism is a fundamental ethical obligation applied in the work of *all* professional accountants including professional accountants in business, and is a key distinguishing element of the profession. This view is also supported in the recent ICAEW publication, [Scepticism: The Practitioners' Take](#).

We are of the view that any terminology used in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) needs to be of a sufficient and elevated profile that reflects the importance of the concept, and believe the term 'professional skepticism' provides this recognition and should therefore be retained. We also believe that skepticism is already a widely understood, and effectively communicated, term both within and beyond the profession. A new term may not have the same level of existing understanding.

There is no confusion that the Code, its fundamental principles and conceptual framework apply to all professional accountants and we view the concept of professional skepticism as no different. If material on professional skepticism followed the existing structure of the Code, with an overarching understanding and description that is relevant in the context of the ethical responsibilities and the fundamental principles of all professional accountants, and separate guidance distinguishing between *how* professional skepticism is relevant to the assurance practitioner, a professional accountant providing consulting or tax services, and a professional accountant in business, we believe this would strengthen the concept of professional skepticism without undermining the current understanding in an audit context.



There is potential risk that the previous short term measure, to add new application material clarifying how the Code's fundamental principles support the exercise of professional skepticism in an audit and assurance context only, could inadvertently influence future actions, such that they do not strengthen the Code. Given this new addition to a section of the Code which applies to all professional accountants, we believe it is now necessary and very important to expand the material on professional skepticism in the Code itself to also include content relevant to professional accountants in business, including for professional accountants working in firms who perform other professional services. Not doing so could imply that professional accountants outside audit practice do not need to apply professional skepticism in their work.

There is a shared responsibility across the reporting supply chain for achieving high quality corporate reporting and we believe that the application of professional skepticism by all professional accountants would strengthen report quality as well as audit quality.

If you require additional clarification, would like to discuss any of the issues raised above, or if there is any additional way the PAIB Committee can support IESBA in its future work on this matter, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, which appears to read 'Charles Tilley'. The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Charles Tilley
Chair
IFAC Professional Accountants in Business Committee



Appendix 1

Question 1. Paragraph 5 - Do you agree with the premise that a key factor affecting public trust in the profession is whether information with which a professional accountant is associated can be relied upon for its intended use?

Yes, we agree in principle with the premise set out in paragraph 5 of the consultation paper, although some clarification of wording may be needed around what is implied by being 'associated'. We also believe that if the profession is to be seen as providing legitimacy, trust and accountability within both corporations and government, the professionalism of accountants working in organizations will be a critical differentiator. Professional accountants in business are the "first line of defense" in safeguarding the reputation of an organization, as well as providing the insights necessary for effective decision making.

As such, we must ensure that professional skepticism and judgment are seen as fundamental components of professional accountants working beyond public practice.

The recent ICAEW publication, [Scepticism: The Practitioners' Take](#), also shared a strong view from interviews with practising auditors, training providers who also perform file reviews, and audit regulators that:

"scepticism is not just for auditors and that many of those calling for more auditor scepticism need to display it themselves. Scepticism is for audit committees, management and internal auditors to exercise, before the information they produce is handed over to external auditors."

The purpose of the Code is to protect the public and build trust in the profession. The Code, therefore, appropriately applies to all professional accountants, not just those in one area of practice.

This is why we very much support the International Ethics Standards Board for Accountants (IESBA) in its continued efforts to ensure a relevant *International Code of Ethics for Professional Accountants (including International Independence Standards)* that underpins required professional behavior and mindset of *all* professional accountants.

Question 2. Paragraph 10 - Do you agree with the behavior associated with public expectations of professional accountants? Are there aspects that should be included or excluded from the summary?

We do not agree that 'impartial and diligent' mindset adequately reflects the essence of professional skepticism. It is not synonymous with maintaining a 'questioning mind' (as used in the ISA definition).



Question 3. Paragraphs 13 and 14 - Do you agree that the mindset and behavior described in paragraph 10 should be expected of all professional accountants? If not, why not?

We believe that professional skepticism and professional judgement should be applied by all professional accountants, regardless of their role. However, as per our response to question 2 we do not agree with the suggested terminology of 'impartial and diligent' mindset.

Question 4. Paragraph 15, Do you believe the fundamental principles in the Code and related application material are sufficient to support the behaviors associated with the exercise of appropriate "professional skepticism?"

We believe that there is a need to strengthen the concept of professional skepticism in the Code for all accountants. This is especially important, given that application material has already been added in an audit and assurance context (para 120.13 A2 of the restructured Code) as a result of the IESBA's previous consultation, *Proposed Application Material Relating to Professional Skepticism and Professional Judgment*.

If no new content related to professional accountants in business is added to the Code itself, an unintended consequence could be the perception that the Code implies that professional accountants outside audit practice do not need to apply professional skepticism.

Question 5. Paragraph 18 - Do you believe professional skepticism, as defined in International Standards on Auditing, would be the appropriate term to use?

It would not be appropriate in its current form and would require modification to be applicable to all accountants.

Question 6. Paragraph 19

(a) Do you believe that the Code should retain/use the term "professional skepticism" but develop a new definition?

Yes, this is the PAIB Committee's preferred option. We are of the view that any terminology used in the Code needs to be of a sufficient and elevated profile that reflects the importance of the concept, and believe the term 'professional skepticism' provides this recognition and should therefore be retained.



We would welcome an overarching description and understanding of professional skepticism within the Code that is relevant in the context of the ethical responsibilities, and the fundamental principles, of *all* professional accountants.

This could make for a stronger conceptual starting point and allow scalability of the concept for use in the different contexts in which professional accountants work. This would require an extension to the content recently added in part 1 para. 120.13 A2, that currently only applies to accountants in public practice.

We believe, much like how the Code handled the issue of non-compliance with laws and regulations (NOCLAR), there is a distinction to be made between how professional skepticism is relevant to the assurance practitioner, a professional accountant providing consulting or tax services, and a professional accountant in business. For example, the level of documentation may be less onerous for those not providing assurance services.

In terms of financial statement reporting, the application of professional skepticism by professional accountants in business protects the public, and is an important part of enhancing financial statement quality. Professional skepticism is important in relation to:

- Assertions in financial information about measurement, presentation, and disclosure;
- Identifying error or fraud,
- As a component of an organization's internal control structure, and
- Providing the auditors with a letter of representation.

Professional skepticism is also important to professional accountants in business working in roles beyond financial reporting carrying out a range of activities, including:

- Forecasts, estimates, and projections and the assumptions upon which they are based being transparent and credible;
- Providing robust business case information supporting decisions and capital allocation; and
- Providing assessment of effective and sufficient IT controls and procedures as part of implementing or improving financial and non-financial reporting systems.

In these activities, misstatements and errors can potentially have as great or an even greater impact on a company's share price than an error in their financial statements.

(b) If so, do you support a new definition along the lines set out in paragraph 19?

We do not support the proposed definition set out in paragraph 19. An 'impartial and diligent' mindset does not adequately reflect the essence of professional skepticism and is not synonymous with maintaining a 'questioning mind' (as used in the ISA definition).



(c) If you do not support a definition along the lines described, could you please provide an alternative definition?

Ultimately we see the application of professional skepticism by professional accountants in all roles as ensuring that data or information (whether that be financial or non-financial) being used for reporting purposes and/or for decision making, is fairly stated and appropriate to the circumstances in which it is being used.

A modified definition to reflect this could be:

“Approaching professional activities with a skeptical mindset and applying this mindset and relevant professional expertise to ensure financial and non-financial information or data being used for reporting and/or decision making is fairly stated and appropriate to the circumstances in which it is being used.”

Any new definition developed would benefit from further explanation of its context to help with its interpretation. Terms such as skeptical, questioning, challenging, impartial and diligent are all open to different interpretations, and different definitions in themselves.

For example, we do not see having a ‘skeptical mindset’ as assuming information or data is incorrect until there is sufficient evidence to prove otherwise, but equally there cannot be acceptance of information at face value without appropriate challenge. The level of that challenge will be dependent on the circumstances.

Question 7. Paragraph 20

(a) Would you support an alternative term to ‘professional skepticism’, such as ‘critical thinking’, ‘critical analysis’ or ‘diligent mindset’?

No this could cause unnecessary confusion and imply that the underlying concept is different. Our reluctance to use another term is also because we believe that skepticism is already a widely understood, and effectively communicated, term both within and beyond the profession. A new term may not have that same degree of existing understanding.

(b) If not, what other term(s), if any, would you suggest which focusses on the mindset and behaviors to be exercised by all professional accountants?

We support maintaining the term professional skepticism, but also believe an important consideration is scalability in terms of how professional skepticism manifests itself in relation to the work of different types of professional accountants is an important consideration.

An overarching articulation of professional skepticism could be supported by specific terms to identify different forms and aspects of professional skepticism.



For example, professional skepticism in the audit and assurance context could be referred to as “assurance skepticism” or “audit skepticism.” A specific reference to "assurance skepticism" would clearly differentiate the nature of professional skepticism in this context from other forms of professional skepticism.

Question 8. Paragraph 21 – Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behavior and relevant skills as described? If yes, please suggest the type of application material that in your view would be most meaningful to enhance the understanding of these behavioral characteristics and professional skills.

See response to question 4.

Question 9. What implications do you see on IAASB’s International Standards as a result of the options in paragraphs 18 to 21?

Commenting only on the PAIB Committee’s preferred course of action, there would be clear distinction between professional skepticism in an audit context (as described in ISA 200) and a professional accountants in business context.

However it is important that any new content developed by the IESBA is fully consistent with IAASB’s International Standards, which may also require complementary revisions to ensure alignment between the ethics and audit and assurance standards.

Question 10. Paragraph 22 – Should the Code include application or other material to increase awareness of biases, pressure and other impediments to approaching professional activities with an impartial and diligent mindset and exercising appropriate professional skepticism in the circumstances? If yes, please suggest the type of materials that in your view would be the most meaningful to help professional accountants to understand how bias, pressure and other impediments might influence their work.

Illustrative case study examples/scenarios would be useful and we encourage the IESBA to utilize the IFAC Global Knowledge Gateway as a channel to provide analysis, examples and case studies for the profession.

Results from activities such as [CIPFA’s survey](#) exploring the pressure accountants feel to compromise their ethical codes, could be useful in informing guidance requirements.