

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

*This Communiqué forms part of a series from the International Auditing and Assurance Standards Board (IAASB) Professional Skepticism Working Group, providing updates on the IAASB's efforts to appropriately reflect professional skepticism in its International Standards on Auditing (ISAs) and other standards, together with other relevant news and information.*



### Applying and Documenting Professional Skepticism

#### In this Edition

One of the most significant public interest issues highlighted in the IAASB's 2015 [Invitation to Comment \(ITC\)](#),<sup>1</sup> was fostering an appropriately independent and skeptical mindset of the auditor. Prior Communiqués have addressed most of the matters raised in the ITC and how they have been incorporated in new and proposed ISAs. This edition makes some brief comments on what is happening on the exercise of professional skepticism in obtaining and evaluating audit evidence as well as documenting the exercise of professional skepticism.

The Communiqué also highlights our co-ordination with IESBA and mentions progress on group audits (ISA 600), the three quality management standards and two other IAASB consultation documents.

#### Professional Skepticism and Audit Evidence

One of the features of recent IAASB standards, including ISA 540 (Revised) and the recently approved ISA 315 (Revised 2019) is a focus on avoiding bias in obtaining audit evidence. What does this mean? It means that auditors will be required to obtain audit evidence in a manner that is not biased towards obtaining evidence that may be corroborative or towards excluding audit evidence that may be contradictory.

When contradictory information is identified, determining the necessary modifications or additions to procedures is required.

***Auditors are required to obtain audit evidence in a manner that is not biased towards obtaining evidence that may be corroborative or towards excluding audit evidence that may be contradictory.***

This will usually involve seeking and obtaining evidence from other sources—both from within the entity, e.g., other departments in addition to the financial reporting function, and from outside the entity.

As part of the IAASB's [Audit Evidence](#) project, the IAASB will explore the issues in the two paragraphs above and others related to exercising professional skepticism in obtaining and evaluating audit evidence.

#### Professional Skepticism and Documentation

The ITC asked, "How can the application of professional skepticism be better evidenced?"

Regulators continue to identify instances of the failure to exercise professional skepticism. The need for appropriate documentation of the auditor's exercise of professional skepticism assumes greater importance because of these ongoing regulatory concerns.

<sup>1</sup> *Invitation to Comment: Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*

## Applying and Documenting Professional Skepticism (cont'd)

In developing ED-220, *Quality Management at the Engagement Level*, the IAASB added additional material to assist auditors by describing impediments to professional skepticism, auditor biases and actions the engagement partner can take to address the impediments to the exercise of professional skepticism.

ED 220 also notes that, when dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional skepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement, the documentation may include explanations of how the engagement team dealt with the circumstance.

Further thoughts on the documentation of professional skepticism, together with examples, are likely to be part of the ongoing work of the Professional Skepticism Working Group. Feel free to share any good examples with us that might assist other auditors.

### Group Audits

The IAASB's [project](#) to revise ISA 600 is now under way.

The IAASB will address the appropriate application of professional skepticism for judgments made by the group engagement partner and group engagement team, including robust interaction and communication with the component auditors.

### The Path Ahead...

The IAASB is currently analyzing comments received in response to the following documents discussed in prior *Communiqués*:

- Its [Proposed Strategy for 2020–2023 and Work Plan for 2020–2021](#)
- The proposed quality management standards:
  - [ISQM 1](#)
  - [ISQM 2](#)
  - [ISA 220 \(Revised\)](#)
- Its [Consultation Paper: Extended External Reporting \(EER\) Engagements](#)

We will keep you posted on further developments.

## CROSS-BOARD COMMUNICATION



Ongoing communication between the IAASB and the International Ethics Standards Board for Accountants (IESBA) gives an opportunity to coordinate our activities and provide input.

In particular, the IAASB's Professional Skepticism Working Group has provided input into the IESBA's project addressing the [role, mindset and behavioral characteristics expected of all professional accountants](#).

The IESBA project proposes revisions to the IESBA Code to respond to stakeholder calls for the IESBA to explore whether and how the Code could contribute to strengthening the application of concepts underlying professional skepticism by all professional accountants. Among other matters, the proposals:

- Highlight professional accountants' wide-ranging role in society and the relationship between compliance with the Code and a professional accountant's responsibility to act in the public interest;
- Include enhancements to the robustness of the fundamental principles of integrity, objectivity and professional behavior;
- Further strengthen the Code through requiring professional accountants to have an inquiring mind when applying the conceptual framework; and
- Highlight the importance of being aware of bias and having the right organizational culture.

The comment period closes **October 31, 2019**.

If you have any comments or suggestions, please contact:  
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