



International Organization of Securities Commissions  
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Organización Internacional de Comisiones de Valores

23 August 2018

Senior Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017 U.S.A.

Our Ref: 2018/PK/C1/IESBA/58

**Subject Line: Professional Skepticism – Meeting Public Expectations**

Dear Sir:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to provide input on the International Ethics Standards Board for Accountants' (the IESBA or the Board) Consultation Paper: *Professional Skepticism – Meeting Public Expectations* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing matters, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1. Our comments are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.



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## Overall Comments

We appreciate the Board seeking input on the concept of professional skepticism within the Code. With the increasing complexity of business transactions and financial reporting together with greater judgment and estimates therein, there is a heightened sense of urgency for all accountants to exercise greater levels of scrutiny and attentiveness in the performance of their duties. However, we believe the Board’s greatest focus should be on how to engrain the desired mindset and behavior, including – where appropriate – professional skepticism, into the day-to-day work professional accountants, including auditors, perform in their various roles. We believe this cannot simply be accomplished through changes to words or an additional definition in the Code but it must be a deliberate effort by the leadership of companies and audit firms to impact the mindset and behavior of professional accountants.

Having said that, regardless of the final outcome of this Paper, the Board should be careful that any attempt to address the matters discussed in the Paper does not dilute the quality of information underlying financial reporting, quality of audits or the responsibilities of auditors to uphold the public interest. With this in mind, we believe the concept of professional skepticism that we have today in the auditing literature should be reserved for, and applied solely to, auditors while the Board should define a separate term describing the desired mindset and behavior that would apply to all professional accountants.

## Establishing a Culture of Professional Skepticism

We believe that it is important that the culture within both audit firms and other organizations where professional accountants practice be infused with the behavioral qualities similar to those currently articulated in the Code’s fundamental principles and, where appropriate, the professional skepticism mindset. We believe it starts with establishing the appropriate “tone at the top” and “tone at the middle” whereby boards of directors (through their audit committees or other applicable board committees) and top and middle-level management communicate and demonstrate this behavior on a consistent basis as it relates to professional accountants.

We recognize that influencing the culture within audit firms and other organizations is not the sole responsibility of the Board. All relevant stakeholders, including regulators, boards of directors and audit committees, management, the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), professional organizations of accountants, and others can do their part to effect the desired



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change. As part of its potential outputs, we encourage the Board to coordinate with the IAESB to develop education and training materials to enhance the alertness of professional accountants to the desired behavioral qualities.

### **Overarching Principles for All Accountants**

Paragraph 19 of the Paper states that:

“...the definition of “professional skepticism” would encapsulate the behavior described in paragraph 10 above, such as:

“Approaching professional activities with an impartial and diligent mindset and applying this mindset and relevant professional expertise to the evaluation of information with which they are associated.””

We believe the term “professional skepticism” should be reserved for, and applied solely to, auditors. This is because we are concerned that trying to redefine the term in a broad enough manner, such that it might be applied to all professional accountants playing varying roles in public and private practice, might dilute or otherwise adversely affect the understanding and application of professional skepticism which concept is fundamental to high-quality audits and other assurance services. With this in mind, we believe the Board should separately define a term that would encapsulate characteristics from each of the Code’s relevant fundamental principles that will emphasize the overarching mindset and behavior expected of all professional accountants. This definition may need to be more comprehensive than paragraph 19 noted above as certain fundamental skills and characteristics, that is, those articulated in the fundamental principles, are broader than those listed in paragraph 19 and should be foundational to all professional accountants. In addition to the skills associated with the fundamental principles, the definition should include professional accountants having a critical, diligent mindset and being alert to conditions that may lead to the potential for irregularities and mistakes.

We also believe that the new term and definition should include language that alerts professional accountants to the separate definition of professional skepticism applicable to those that are auditors.



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Further, if the Board decides to retain the concept of an “impartial mindset,” we believe it will be important for the Board to clarify to whom the professional accountant needs to be impartial. For example, while management’s responsibility and impartiality, for the most part, may be understood to be to the shareholders, investors or lenders of the company, the concept of “impartial mindset” may be more difficult to understand and apply to a professional accountant retained by management to perform certain non-audit services, for example to advocate the company’s interests in litigation.

Paragraph 19 further states that:

“...the related application material in the Code would need to address the different expectations of professional accountants depending upon the roles expected of them, their seniority and their experience – factors that form part of the concept of “scalability.”

We also believe that the definition of the new term to be applied to all professional accountants should be scalable based on the role and responsibilities of the professional accountants considering the varying roles they play in public and private practice. However, it should also be based on the nature of the matter and the available evidence at the professional accountant’s disposal. Having said this, we believe that, regardless of the level of experience, all professional accountants should have the same mindset described by the new definition as they comply with the professional standards governing their work. However, we anticipate that the *effectiveness* of having such a mindset may vary, in part, based on the level of experience and/or seniority of the professional accountant. For example, accountants who have prior experience in uncovering fraudulent financial reporting or have greater awareness of past accounting irregularities may have a greater ability to uncover fraud or errors than less experienced accountants. This highlights the importance of appropriate supervision in the practice of accounting.

In any regard, the Board will need to properly design this concept of scalability so that it is operable and enforceable. Perhaps principles similar to those used to develop the Board’s position on “*Responding to Non-Compliance with Laws and Regulations*” could be applied when considering the scalability of the newly defined term for all professional accountants.



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## **Amending the Fundamental Principles**

Paragraph 15 of the Paper states that:

“Some commentators have observed that the behavior articulated in paragraph 10 above is already implicitly embedded in the Code’s fundamental principles (see Appendix 2), principally Integrity, Objectivity and Professional Competence and Due Care. They therefore believe there is no need for additional requirements in the Code.”

As indicated earlier in this letter, we believe the five characteristics of the fundamental principles, namely, Integrity, Objectivity, Professional Competence and Due Care, Confidentiality and Professional Behavior should form the basis for the definition of a new term that would describe the desired questioning and appropriately challenging mindset and behavior expected of all professional accountants. However, as discussed above it is also important that these characteristics are consistently demonstrated by professional accountants. Compliance with these principles could greatly enhance the behavior the Board seeks to affect.

## **Professional Skepticism for Auditors**

We believe that the IAASB’s definition of professional skepticism in ISA 200 should be the basis for the definition for auditors – which would be separate from the new overarching definition applicable to all professional accountants which we mentioned above. We note that ISA 200 defines professional skepticism as follows:

“An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.”

This definition applicable to auditors should also incorporate the following two additional elements that could enhance the current definition in ISA 200:

1. The auditor’s response to audit evidence should be explicitly included in the definition. That is, not only should the auditor have an attitude that includes a questioning mind, being alert to indications of possible misstatement and a critical assessment of audit evidence but he/she should respond in a manner that is appropriate based on the audit evidence; and



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2. Having not just a questioning mindset but challenging policies, estimates, assumptions, etc.

As our comments above would, at a minimum, require changes to ISA 200, we encourage the Board to work closely with the IAASB so that changes to the Code with respect to professional skepticism and the language in the ISAs are properly aligned. This could include potential additional guidance regarding the auditor's role in considering contradictory evidence. We also believe the Board and the IAASB should coordinate their efforts to address those situations in which the auditor is performing work under the ISAs but is not subject to the Board's Code which could result in those auditors not being subject to the new baseline definition.

### **Illustrative Examples**

To assist professional accountants in accurately interpreting the requirements it may be useful for the Board to include some illustrative examples of how professional skepticism would be applied in various scenarios.

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Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact Doug Niven on ph. +61 2 9911-2079 (email: [douglas.niven@asic.gov.au](mailto:douglas.niven@asic.gov.au)) or Nigel James at ph. + 1 202-551-5300 (email: [jamesN@sec.gov](mailto:jamesN@sec.gov)).

Sincerely,

Parmod Kumar Nagpal  
Chair, Committee on Issuer Accounting, Audit and Disclosure  
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