



PROFESSIONAL SKEPTICISM – MEETING PUBLIC EXPECTATIONS

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ICAEW welcomes the opportunity to comment on *Professional Skepticism – Meeting Public Expectations* published by the International Ethics Standards Board for Accountants (the Board), a copy of which is available from [this link](#).

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RESPONSES TO SPECIFIC QUESTIONS

Q1: 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?

1. We agree: the provision, analysis and interpretation of information is at the heart of what professional accountants do. In terms of reliance, it is important to bear in mind and explain that given the wide variety of roles that professional accountants undertake and circumstances that they face, there are degrees of ‘association’. The assertion in paragraph 14 of the consultation paper that scalability needs to be recognised in any discussions, takes on key importance.

Q2: 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? and

Q3: 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?

2. We think the proposal that professional accountants should ‘(a) Approach professional activities with an impartial and diligent mindset; and (b) Apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated.’ Is a reasonable summary of the general professional behaviour required that is implicit within the need to comply with the fundamental principles. It follows that it is appropriate to be expected of all professional accountants.

Q4: Paragraph 16 – 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?”

3. As noted above we believe that the behaviour described is implicit within what is needed to comply with the fundamental principles. However, we believe that it would be appropriate to include some explicit high level guidance reminding professional accountants of this.

Q5: Paragraph 18 – Do you believe professional skepticism, as defined in International Standards on Auditing, would be the appropriate term to use?

4. The description of professional scepticism in the ISAs is very focused on the level of work needed in an assurance engagement and indeed is seen as a demonstrable end in itself. There is a risk that because audit attracts so much external attention, all work undertaken by professional accountants is seen through an audit lens. We do not believe that this is appropriate: the description of professional scepticism in the ISAs should not be applied to all work undertaken by professional accountants, as this seriously fails the scalability notion referred to above. The general concept applicable to all professional accountants must not be confused with the narrower ISA definition.

Q6: Paragraph 19 –

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

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

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

5. The general concept of professional scepticism is a mindset to be applied in complying with the fundamental principles: it is not an end in its own right. It is appropriate to be described (and the concept described in paragraph 10 of the consultation paper is a reasonable basis to use) but should not be defined.

Q7: Paragraph 20 –

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

(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?

6. As noted above we believe there is a risk of confusing the general concept of the mindset needed to comply with the fundamental principles, with the narrower definition of professional scepticism used by the IAASB. A separate term for the wider concept might assist with avoiding this confusion. ‘Diligent mindset’ is fine as far as it goes but the concept requires more than diligence – that after all is already part of the description of the fundamental principle of professional competence and due care. ‘Critical thinking’ (using ‘critical’ in its wider sense of applying skilled judgment, rather than implying automatic fault) expresses the concept reasonably well, though implies an academic process. Perhaps some combination of the two would be appropriate.

Q8: Paragraph 21 – Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behavior and relevant professional skills as described? If yes, please suggest the type of application material that in your view would be the most meaningful to enhance the understanding of these behavioral characteristics and professional skills.

7. A general discussion of the behavioural characteristics and scalability criteria outlined in paragraphs 10 and 14 of the consultation paper would be appropriate, situated within the discussions on the fundamental principles in part 1 of the Code (perhaps under the principles of integrity or professional competence and due care).
8. It may also be helpful to prepare a number of case studies for publication outside of the Code to illustrate that blind acceptance is inappropriate but give examples of appropriate challenge.

Q9: What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21?17

9. We do not see any direct implications. That is not to say that the IAASB’s and IAESB’s work would not benefit from a review of behavioural considerations. ICAEW has recently published a report [Scepticism: the Practitioners’ Take](#) which, for example, addresses issues around dealing with cognitive bias, and balancing the tension between independence and the need for knowledge of the audited entity.

Q10: 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 understand how bias, pressure and other impediments might influence their work.

10. We do not believe that more detailed discussion in parts 2 and 3 of the Code is necessary. A short discussion of the interaction between the general concept and the more specific IAASB definition may be appropriate in part 4 of the Code on independence in assurance engagements.