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Sent by email:
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Brussels, 14 August 2018

Subject: Accountancy Europe's response to the IESBA Consultation Paper on the *Professional Skepticism – Meeting Public Expectations*

Dear Mr. Ken Siong,

Accountancy Europe is pleased to provide you with its comments on the IESBA Consultation Paper on *Professional Skepticism – Meeting Public Expectations*.

Accountancy Europe recognises that there is pressure from certain stakeholders for the Code to better reflect what the public expects of a professional accountant. We appreciate that the IESBA has a role and so should react to public expectations. As a first step, the IESBA would need to consider in detail which of the expectations voiced by commentators (listed in paragraph 7) are reasonable expectations that the IESBA can address. In our view, in order to address these concerns, the most appropriate response from the IESBA is to insert additional application material into the restructured Code (*Option 4*). New principles-based guidance should be added in the Code to highlight what is expected of the professional accountant, including their public interest responsibilities.

Additionally, consideration should be given to reviewing the application material that supports the fundamental principles to see whether this needs to be strengthened to better emphasise the expected behavioural characteristics.

We think that the IESBA should not develop a new term and a new definition on top of the existing definition of professional skepticism issued by the IAASB, but develop the term and core principle of Integrity. The principle of Integrity appears to be the most obvious place for any such new material. As highlighted by Accountancy Europe in a previous publication '*Integrity in Professional Ethics*', Integrity is the overarching fundamental principle of the ethical behaviour of professional accountants.

We would caution that the IESBA will need to be careful in selecting terminology to ensure that it does not introduce any inadvertent increase in work effort or widen the expectations gap in this regard.

It is strategically important that the IESBA continues to coordinate its activities on this initiative with both the IAASB and the IAESB. If the IESBA decides not to pursue *Option 1* or *Option 2* in its consultation paper, then this should mean that the IAASB involvement could be restricted to keeping the other Boards up to date with developments. In relation to the IAESB, it is essential that the education standards properly reflect any changes which are made. Indeed, any changes to the Code will not of themselves achieve the desired outcomes, education needs to follow suit. Stakeholders such as professional bodies and firms, all need to continue to play their part in ensuring that training in the required behavioural characteristics expected of a professional accountant is provided to all those joining and working within the profession.

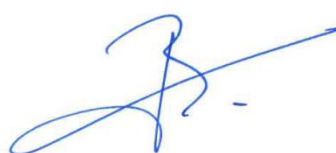
We appreciate the opportunity to provide further input and hope that IESBA finds our comments helpful in shaping an approach that will increase confidence in both the financial and non-financial information with which professional accountants are associated.

For further information on this Accountancy Europe letter, please contact Hilde Blomme on +32 (0)2 893 33 77 or via email at hilde@accountancyeurope.eu or Mihai Calin on +32 488 55 25 44 or via email at mihai@accountancyeurope.eu.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 37 countries that represent **1 million** professional accountants auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18)

ANNEX – RESPONSES TO THE IESBA REQUEST FOR SPECIFIC COMMENTS

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?

- (1) We appreciate that specific behavioural characteristics, corroborated with appropriate skills and experience of professional accountants, are crucial to facilitate accurate decision-making by users. Whilst we support the intention behind the IESBA's premise, certain wording changes and terminology clarifications are needed.
- (2) The aspect that should prevail is not whether the information can be "*relied upon for its intended use*", but rather whether the information can be "*used as intended*". We suggest that the key factor affecting public trust in the profession should be reworded along the lines of whether information produced by a professional accountant can be "*used as intended*".
- (3) While the information produced by professional accountants widely differs depending on the area of practice - e.g. when providing audit services, non-audit services, when preparing financial statements – the IESBA needs to be clear about what the term "*association*" means. It would be unreasonable to expect all professional accountants to test the veracity of underlying information they are working with. Therefore, we consider "*professional accountants should not be knowingly associated with information the accountant believes to be misleading*" a more accurate statement that is already included in the current requirements of the Code (R111.2)¹, as opposed to the premise proposed in *question 1*.
- (4) In addition, characteristics expected from professional accountants in this context should be made clearer, especially to their stakeholders and to the public at large. We are not convinced with the description of behaviours associated with the public expectations of professional accountants (*paragraph 7* of the consultation paper). The wording used is, in some instances, inappropriate, as not all expectations appear reasonable. We, for example, refer to the use of the terms "*obtain*" in the first bullet point, and "*challenge*" in the second bullet point, as these constitute quasi-assurance type procedures that cannot be expected from all professional accountants in all activities, especially individuals working in business. The same goes for the unrealistic expectation that professional accountants should "*withhold judgement pending thoughtful consideration of all known and relevant available information*". We encourage IESBA to revise this wording.

¹ The Restructured Code, IFAC; available at: <https://www.ifac.org/system/files/publications/files/Final-Pronouncement-The-Restructured-Code>

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

(a) Approach professional activities with an impartial and diligent mindset

- (5) We agree that professional accountants should approach professional activities with the ‘*right attitude*’.²
- (6) Approaching professional activities with an impartial and diligent mind is already covered by the fundamental principles in the Code of Objectivity and Professional Competence and Due Care (which covers diligence). *Point (a)* is therefore a repetition and should be replaced with a cross reference. The IESBA should use application material to emphasise that compliance with the fundamental principles supports the exercise of these behavioural characteristics.³
- (7) The particularities of the different services provided by professional accountants have an impact on the exercise of diligence. For example, for professional accountants in business, ethical behaviour could be influenced and limited by additional factors, such as an internal code of conduct, the business strategy of the company, the internal way of working, etc. Therefore, the scalability of the concept has to be considered and factored-into developing a holistic approach on such a broad topic.

(b) Apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated

- (8) The use of the term “*evaluation of information*” begs the question as to why all information that professional accountants use ought to be evaluated and for what purpose. Whether an evaluation is necessary and for what purpose depends on the activity the professional accountant is performing.
- (9) In this regard we note that the term “*evaluate*” is already understood in an audit and assurance context as defined within the IAASB’s glossary as: “*identify and analyze the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. “Evaluation,” by convention, is used only in relation to a range of matters, including evidence, the results of procedures and effectiveness of management’s response to risk*”. Use of this same term for non-assurance activities would likely add confusion.
- (10) Furthermore, in case the professional accountant is not performing an assurance engagement, an internal audit engagement or other investigatory engagements, we do not think that the professional accountant should be required to evaluate information, unless the professional accountant has reason to believe that such evaluation of some aspect of that information is necessary. Rather, professional accountants performing other activities should remain alert for indications that the information is not adequate in the circumstances. It is also unclear, as noted before, what “*association*” means in this context.
- (11) The five IESBA fundamental principles provide the right foundation on the basis of which accountants should assess whether they are meeting the standards of ethical behaviour expected from them.

² Accountancy Europe, *Response to the IAASB's Invitation to Comment on Enhancing Audit Quality*, available at: <https://www.accountancyeurope.eu/consultation-response/1605-iaasb-itc-audit-quality/>

³ Accountancy Europe, *Response to the IESBA Exposure Draft Proposed Application Material Relating to Professional Skepticism – Linkage with the Fundamental Principles and Professional Judgment*, available at: <https://www.accountancyeurope.eu/consultation-response/iesba-exposure-draft-proposed-application-material-relating-professional-skepticism-professional-judgment/>

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

- (12) We agree that these core behavioural traits are relevant for all professional accountants, regardless of their role and professional responsibilities.
- (13) However, as the IESBA Code should emphasise the right behaviours in adherence to existing fundamental principles, the articulation of the behaviour expected from professional accountants would be better addressed in additional application material. We think that the wording used in *paragraph 10* of the consultation paper predominantly focuses on prerequisites of such behaviour, namely, approaching professional activities with an *"impartial and diligent mindset"*. We do not agree with applying it to the *"evaluation of information"*, but believe instead that professional accountants need to be alert to the possibility that information they use, produce or are otherwise associated with may appear to be misleading.
- (14) We note that applying the right behavioural aspects widely depends on the area of practice, on the role of the professional accountant and on the context. We reiterate that professional accountants in business are subject to specific limitations in their roles, as outlined in *paragraph 7*, above. Therefore, the issue of scalability will have to be addressed.

Question 4: Paragraph 16 – Do you believe the fundamental principles in the Code and related application material are sufficient to support the behaviours associated with the exercise of appropriate "professional skepticism?"

- (15) The current provisions in the Code are sound and should remain principles-based to avoid setting rules determining what is acceptable and what is not.
- (16) Given stakeholders' expectations to make the Code's provisions clearer, we agree that new application material should be inserted in the Code to highlight what is expected of the professional accountant, including their public interest responsibilities. This could be done by adding application material with guidance on the meaning of the behavioural concepts existing in the Code (e.g. integrity), adding practical views on such concepts through videos or case studies, etc.. We think the IESBA should review the application material that supports the fundamental principles to assess whether it needs to be expanded to better emphasise the expected behavioural characteristics. For instance, we refer to situations where professional accountants need to be alert to information that they use or are associated with, that appears to be misleading or incomplete. Each situation and context are different, therefore additional guidance on how to apply the underlying principles for all professional accountants is welcomed as a potential enhancement.
- (17) This could be cleverly done by adding application material to the Code to explain behaviour characteristics deriving from the underlying principle of Integrity.
- (18) Such updates should be done at the right timing though, considering that the profession is currently focused on transposing the recently revised Code. As such, further revision of the Code on the short-term would create confusion among professional accountants.

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

- (19) No, we are against this view. The term '*professional skepticism*', either as defined in the ISAs or otherwise (e.g. the European Commission's definition of '*professional skepticism*' applicable to statutory auditors), should not be used as a term that applies to all professional accountants. As outlined by the IESBA in the consultation paper, the IAASB definition of professional skepticism is fit for the purpose of assessing evidence in obtaining a level of assurance.
- (20) We consider all professional accountants need to apply diligences when discharging their professional responsibilities. However, when seeking to clarify terminology, the IESBA should be cautious not to dilute the concept of professional skepticism that applies to professional accountants performing audit or other assurance engagements and/or to create expectations that professional accountants in general would not be able to fulfil.
- (21) Accountancy Europe believes it is important that the IESBA continues to coordinate its activities on this initiative with both the IAASB and the IAESB. If the IESBA decides not to pursue *Option 1* or *Option 2* as included in its consultation paper, then this could mean that the IAASB's involvement be restricted to keeping them up to date with developments.
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Question 6: Paragraph 19 –

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

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

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

- (22) At this stage of the reflection, Accountancy Europe is not supportive of the IESBA adopting a new term and developing a new definition to reflect the behavioural characteristics expected of all professional accountants.
- (23) We do not support the definition as proposed in *paragraph 19*. As noted above, diligence is already covered by Due Care and impartiality is already covered by Objectivity. In addition, the definition should not use words like "*challenge*" that suggest that the concept is in fact stronger than that for assurance engagements. In addition, using "*evaluation of information*" is misleading: all information that professional accountants use are not meant to be evaluated. Whether an evaluation is necessary and what an evaluation stands for depends on the activity the professional accountant is performing.
- (24) Instead, developing on the term and core principle of Integrity could be a good way forward as further behavioural characteristics could be expected of someone behaving with integrity in a professional context. Accountancy Europe worked on this topic in 2009⁴ and 2011⁵ and found out that Integrity was the overarching fundamental principle of the ethical behaviour of professional accountants.

⁴ Accountancy Europe, *Integrity and Professional Ethics*; available at: https://www.accountancyeurope.eu/wp-content/uploads/Integrity_in_Professional_Ethics_A_Discussion_Paper

⁵ Accountancy Europe, *Personal and Professional Integrity: At the Core for Accountants and Business in General*; available at: <https://www.accountancyeurope.eu/professional-matters/personal-and-professional-integrity-at-the-core-for-accountants-and-business-in-general/>

Question 7: Paragraph 20 –

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

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

- (25) We consider that further amendment of the Code or adding additional overlapping concepts or using one term with two differing definitions would create more confusion to the end user, hindering clarity. The key concepts and underlying principles of the Code should be clear and concise to avoid any forms of confusion in interpretation and application.
- (26) We emphasise that adding new concepts and/or new definitions would not bring more clarity to the profession and that the IESBA should explore the solution of developing further application material on the term and core principle of Integrity. In this context, an example of notion that could be used when adding clarifying application material on Integrity is *"Critical thinking"* – i.e. being alert to information that appears not to fulfil the purpose for which it is to be used or to be otherwise misleading and taking appropriate actions. However, we would not support use of the term *"critical analysis"* because – given the IAASB's use of this term – there is a danger that it could be interpreted as exceeding even professional skepticism. As previously noted, the Code's fundamental principles already cover diligence and so it is unnecessary to add the term *"diligent mindset"*.
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Question 8: Paragraph 21 – Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behaviour 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 behavioural characteristics and professional skills.

- (27) We consider that developing additional application material to the Code (*Option 4*) would achieve the objective intended by the IESBA with this consultation paper on *'Professional Skepticism – Meeting Public Expectations'*. It is important that the IESBA builds on the key and strong concepts already included in the Code.
- (28) We would caution that the IESBA will need to be careful in selecting terminology to ensure that it does not introduce any inadvertent increase in work effort or widen the expectations gap in this regard. Specifically, as explained in our response to *question 1*, we do not support the use of the term *"challenging mindset"*.
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Question 9: What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21?

- (29) As stated in our answer to *question 5* above, we believe that the IAASB should continue to address professional skepticism in the specific context of audit and assurance engagements, without risking confusion with more general concepts used by the ethical standards and related application material.
- (30) With respect to the impact on the IAASB's standards, using the same term and definition or the same term with a different definition would have a serious impact on the IAASB. The first would undermine existing standards in relation to compilation engagements and agreed-upon procedures engagements. Having two definitions is not feasible either, as it would cause confusion among professional accountants and would also be difficult to implement when the IAASB considers how both concepts would need to be applied in assurance engagements. It would be counterproductive to put the IAASB in the position of having to develop a new term, which would cause some disruption among practitioners in relation to a term that is well-known and understood.

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

- (31) We note that the fundamental principles already cover impartiality and diligence, therefore it seems redundant to add material to approach professional activities *“with an impartial and diligent mindset”*.
- (32) However, we support the IESBA to insert additional application material into the restructured Code (*Option 4*), but only to highlight what is expected of professional accountants, including their public interest responsibilities, supporting the fundamental principles to better emphasise the expected behavioural characteristics of professional accountants in the broader context.
- (33) To succeed in this project, it is essential for the IESBA to coordinate its activities on this initiative with both the IAASB and the IAESB. In relation to the IAESB, it is essential that the education standards properly reflect any changes made. Any changes to the Code will not of themselves achieve the desired outcomes. Stakeholders such as professional bodies, firms etc., all need to play their part in ensuring that training in the required behavioural characteristics expected of a professional accountant is provided to all those joining the profession.