



Chairman

Via e-mail: KenSiong@ethicsboard.org

Mr Ken Siong
Senior Technical Director
International Ethics Standards
Board for Accountants (IESBA)

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IESBA Consultation Paper on Professional Skepticism – Meeting Public Expectations

Dear Mr Siong

The Basel Committee on Banking Supervision welcomes the opportunity to comment on the IESBA Consultation Paper on *Professional Skepticism – Meeting Public Expectations* (the CP). The Committee has a strong interest in promoting high-quality ethical standards and supports efforts, including those of IESBA, to reinforce and promote professional skepticism.¹

As noted in paragraph 4 of the CP, the limited references to professional skepticism in the International Code of Ethics for Professional Accountants (the Code) exist only in the context of independence standards applicable to audit and other assurance engagements. The Code lacks a requirement that all professional accountants exercise professional skepticism. Therefore, in general, the Committee is supportive of the standard being raised for all accountants (both auditors and professional accountants other than auditors), but the highest standard should be applied to auditors, for whom the term “professional skepticism” should be solely reserved. More specifically:

- The Committee believes that it is beneficial for all professional accountants to adhere to a set of behavioural characteristics that require maintaining an open and inquisitive mind in order to achieve the outcomes described in paragraph 10 of the CP. Professional accountants who are preparers play a fundamental role in the financial reporting process by ensuring the financial statements are free from fraud, errors and material misstatements. The importance of this role increases when there is no subsequent audit of that information (eg there is much information produced by a bank that the regulators rely upon, but is not audited). To ensure the integrity and rigour of their work, they should be prepared to question the adequacy and sufficiency of the information they receive by way of input to their work.

¹ In its comment letter in May 2016 on the International Auditing and Assurance Standards Board's (IAASB) *Invitation to Comment: Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*, the Committee stated its belief that “professional scepticism should be consistently addressed in ethical and educational standards” and “encouraged the IAASB to interact with the other standard setting boards [such as IESBA] in this regard.” See www.bis.org/bcbcs/commentletters/ifac51.pdf

- The Committee believes, however, that auditors, and in particular auditors of public interest entities, should be held to a much higher standard than professional accountants other than auditors. It is an essential feature of an audit that the auditor critically assesses and challenges the information they receive, particularly the assumptions, assertions and representations made by management. This higher standard would best be pursued by the the International Auditing and Assurance Standards Board (IAASB) by, for example, expanding the guidance on the exercise of professional skepticism in International Standard on Auditing 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (ISA 200).²

Professional skepticism is a term already applied to auditors, including within the IAASB's standards and by some other national standard-setting bodies. As mentioned above, in the interest of consistency across auditing and educational standards, the Committee believes the term should be retained and used within the ethics standards for auditors only. A different term should be developed for and serve as the baseline for the mindset to be applied by professional accountants more generally. The baseline, which could build on the expected behaviour described in paragraph 10 of the CP, would also be the foundation for the concept of professional skepticism for auditors.

The Committee also believes the IESBA should explore further the behavioural characteristics of the baseline mindset and the higher standard of professional skepticism. The Committee encourages the IESBA to give particular consideration to the practical implementation of the definitions and characteristics of these terms, and how auditors and professional accountants can demonstrate and evidence their application of the baseline mindset and professional skepticism, as appropriate.

In paragraphs 14 and 19 of the CP, the IESBA introduces the concept of scalability when considering professional skepticism. We would urge caution when referring to scalability because it may imply to some that different degrees of adherence to the baseline mindset and, for auditors, professional skepticism are acceptable. Rather, the standards should seek to have all professional accountants behave in a manner that achieves the outcomes described in paragraph 10 of the CP without regard to the work being undertaken by, and the particular role or position of, the professional accountant. Therefore, it is imperative for the standards to clearly explain the meaning of scalability to avoid misinterpretation and misunderstanding.

Application material for professional accountants other than auditors could explain the expectations for exercising the baseline mindset to achieve these outcomes in ways that recognise differences in the work and roles of such accountants in their organisations. With respect to auditors, further elaboration in this area should fall to the IAASB, perhaps through enhancements to ISA 200, in coordination with the IESBA. When developing scalability for auditors, the IAASB could consider differentiating between the individual level (eg by emphasising keywords like "questioning mindset"), and the firm level (eg by setting out appropriate preconditions for planning, managing and monitoring of the audit project as an audit

² Based on the audit deficiencies related to professional skepticism identified by audit regulators, these deficiencies appear to represent a failure to comply with auditing standards, which the IAASB should consider when undertaking efforts to raise the standard for professional skepticism for auditors.

firm). At the firm level, this could for instance also include the proper composition of the audit team with enough involvement from senior staff and partners, a culture of consultation within the firm and a “tone at the top” of the firm that encourages the exercise of professional skepticism, all of which should be supported by engagement letter terms and conditions, including a sufficient audit fee, that promote a high quality audit.

Finally, the Committee believes professional skepticism should be consistently addressed in the ethics, auditing and educational standards. We encourage the IESBA to liaise with the other standard-setting boards to closely coordinate their work to ensure the ethics standards on the baseline mindset and professional skepticism are reinforced within the auditing and educational standards.

We hope you find our comments constructive and helpful. This letter has been prepared by the Committee’s Accounting Experts Group, chaired by Fernando Vargas Bahamonde, Associate Director General of the Bank of Spain. If you have any questions regarding these comments, please contact Mr Vargas (+34 913 38 61 04), Nic van der Ende, chair of the Committee’s Audit Subgroup (+31 20 524 91 11), or Ruby Garg or Masaya Hatoma at the Basel Committee Secretariat (+41 61 280 8463/+41 61 280 8577).

Yours sincerely



Stefan Ingves