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Mr. Ken Siong  
IESBA Senior Technical Director  
International Federation of Accountants  
529 5<sup>th</sup> Avenue  
New York, New York 10017  
USA

**Re: *Consultation Paper, Professional Skepticism - Meeting Public Expectations***

Dear Mr. Siong,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) *Consultation Paper, Professional Skepticism - Meeting Public Expectations* (Consultation Paper).

***BDO summary***

We appreciate the opportunity to review and provide comments on the IESBA Consultation Paper. From an overall perspective, we believe that the combination of fundamental principles in the IESBA Code, as currently drafted, are sufficient and appropriate for the purposes of embedding the concept of professional skepticism within the accountancy profession. However, we do acknowledge that, for some external stakeholders, there is a concern that the Code and the fundamental principles as currently drafted are not sufficient and require more clarity in respect of professional skepticism. We would support additional application guidance or guidance documents outside of the IESBA Code to address these concerns.

**Responses to Specific Questions**

**Key Considerations Guiding the Establishment of the Work Plan**

- 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 public accountant is associated can be relied upon for its intended use?**

While we acknowledge the statement that public and private organizations depend on professional accountants to perform a wide range of services - we are not clear how this question fits into the overall concept of professional skepticism. We have several concerns that the emphasis of paragraph 5 in the Consultation Paper, and the way in which the premise is currently worded, could be open to misinterpretation, and may not address the specific public concerns that have been cited. Specifically:

- ‘...information with which a professional accountant is associated...’ - professional accountants perform so many different roles (even within the same employers or organizations) and make ‘use’ of information in completely different ways

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depending on the task. On this basis the level of association with the information may range from a cursory review of the information (to help inform other decisions) through to a much deeper evaluation.

- ‘...to have been prepared with the benefit of the professional accountant’s skills and experience...’ - the way this is currently structured implies that professional accountants always prepare the information. This may be true in many scenarios, but in other situations professional accountants may be using information supplied or provided to them by others (from within their own organization, different employer functions, taxation guides or government treasury departments). This particular statement could lead to an additional and unnecessary burden being placed on professional accountants to evaluate an entire information supply chain. In many instances, a professional accountant’s work may only be a portion of the information being produced or the overall work being performed and as a result, the professional accountant may not be in control of the whole process.
- ‘...relied upon for its intended use...’ this particular phrase including ‘relied’ does imply assurance-generating connotations which suggests the focus on professional skepticism is aimed at auditors rather than the majority of professional accountants who work outside of audit. Probably the most important piece of this paragraph is hidden right at the end in the phrase ‘intended use’ which addresses the contextual aspects of individual professional accountants’ roles and should be given more prominence within the premise.

**2. 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?**

We are supportive of the behaviours and actions listed in paragraph 7. We also accept that the term ‘professional skepticism’ has become a ‘catch-all’ term used by a variety of stakeholders to address many different behaviours expected of professional accountants. While current events have raised public concerns that professional accountants performing audit and assurance services have not exercised sufficient professional skepticism - we believe the release of this Consultation Paper serves as a useful reminder that many professional accountants (not only auditors) are part of the financial reporting supply chain. The Consultation Paper also acknowledges the increasing use of non-financial information and data sources, which we welcome.

With respect to the wording of paragraph 10, we have the following concerns:

- In part (a), the use of the word ‘impartial’. We believe ‘objective’ would be a more appropriate word. This is already a concept included and understood from within the IESBA Code and fundamental principles. In addition, in many situations, for example when assisting with a tax situation, a professional accountant is not intended to be impartial as they are performing an advocacy role on behalf of their tax client. However, they would be required to remain objective in the advice that they might provide.
- In part (b), the reference to an ‘evaluation of information’. This would suggest that in all instances, a professional accountant is required to evaluate the information. We do not believe that an evaluation is required in all instances, for example, in the preparation of an individual’s tax return where professional accountants are reliant on a whole host of information provided to them by the taxpayer, tax authorities and third parties such as financial institutions.
- As noted above in our response to question 1 - the term ‘associated’ as used in this particular context is not clear and open to misinterpretation regarding how closely an individual is associated with the information produced.

- Parts (a) and (b) do not appear to address the concepts of ‘informed challenges’ or ‘stand their ground’ competencies contained in paragraph seven of the Consultation Paper.

**3. Paragraph 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?**

Conceptually we believe that mindset and behavioural skills described in paragraph 10 are useful for all professional accountants but should not be presented to the exclusion of the other concepts outlined in paragraph 7.

We agree that across the accountancy profession there should be a foundational level of behavioural competence as it relates to professional skepticism. Recognising that many individuals enter the profession in one role (for example as tax advisors or auditors) in accountancy firms and progress into completely different careers (i.e. in industry, public sector, academia), this would suggest to us that while the content in paragraph 10 is helpful to the discussion - there is a wider need to consider education. Specifically we see a role for providers of Initial and Continuing Professional Development and the opportunity to have more coordination with the International Accounting Education Standards Board’s (IAESB) joint Task Force on Professional Skepticism.

We do agree that for professional skepticism to be applied successfully, it is likely to require a mixture of experiential learning (i.e. over time) and cognitive ability to enable appropriate application to each scenario that the professional accountant faces. We would encourage the IESBA to work with the IAESB to identify at a foundational level the behavioural competence as it relates to professional scepticism requirements of those entering the profession (Initial Professional Development) and those already operating in the profession (Continuing Professional Development). By incorporating professional skepticism into the IAESB learning outcomes, this should enable individuals to flex their mindset and behaviours (based on the six concepts outlined in paragraph 7) to ensure professional skepticism is appropriately applied for a given situation.

In our response to question 2, we have noted our concerns with the terminology in paragraph 10.

**4. 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?"**

Yes. We do believe that the fundamental principles in the Code and related application material are sufficient to support the behaviours associated with the exercise of appropriate professional skepticism. We also recognize that the lack of professional skepticism specificity within the Code, as currently drafted, may mean that another solution (e.g. new application material or material outside the IESBA Code) should be considered to show the potential interaction of the fundamental principles (and other parts of the Code) through a professional skepticism lens.

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

No. We do not believe that professional skepticism, as defined in International Standards on Auditing and issued by the International Auditing and Assurance Standards Board (IAASB), would be the appropriate term to use. The IAASB's definition has been developed for a particular role and it would not be appropriate to apply it to all professional accountants.

We believe that the auditing definition is too focused on evidential rather than informational purposes and the appropriate term, if developed, should focus on more of a foundational basis (i.e. able to operate across multiple roles and entry points to the accounting profession).

There is also the practical danger that simply using a definition developed for auditors may lack credibility or create awareness issues in the eyes of professional accountants operating in business or other roles outside of the audit profession.

As we noted in our response to question 3 above, we support a baseline or foundational level of behavioural competence as it relates to professional skepticism for professional accountants (irrespective of their role) but enabling them to flex the behaviours identified in paragraph 7 of the Consultation Paper to deal with each scenario.

**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 the new definition along the lines of Paragraph 19?**
- c) If you do not support a definition along the lines described, could you please provide an alternative definition.**

We do not believe that the IESBA Code should use the term 'professional skepticism' for application to all professional accountants or develop a new definition. As noted in our response to paragraph 10 of the Consultation Paper, there are a number of limitations and possible issues with the potential definition that has been presented in paragraph 19 of the Consultation Paper - specifically, use of the words 'impartial', 'evaluation' and 'associated'. Given that each of these terms could be open to subjective interpretation, we do not believe that they would be appropriate for a definition (not without further application material to explain their usage).

**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 behaviors to be exercise by all professional accountants?**

Our preferred option is for the IESBA to develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behaviours and relevant professional skills as described below (see our response to question 8). However, if the IESBA felt that this was not sufficient, we would support an alternative term or phrase that considered the behaviours and actions described in paragraph 7. While we acknowledge that this might result in a longer and more detailed term, this

option would however reflect the reality that the various factors operate in an independent or interdependent way (perhaps with some situations requiring more of one factor to be applied than another) and also recognizes the variety of roles and situations in which professional accountants operate.

We do not support terminology that refers to 'critical thinking', 'critical analysis' or 'diligent mindset'. This wording does not translate well internationally and could lead to greater confusion on the part of stakeholders, regulatory bodies and the wider public. In addition, we believe the term should encompass the entire process that makes a professional accountant behave competently - each of the terms highlighted above may be elements of what enables professional skepticism to be applied appropriately but presented individually might result in a skewed definition and application.

**8. 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 most meaningful to enhance the understanding of these behavioral characteristics and professional skills.**

We believe that that there should be additional material, whether in the Code or otherwise, that ties together all the fundamental principles and shows how they require the necessary behaviour in a professional skepticism context. In particular:

- This could be done through illustrative examples of different situations to show how the Code could be interpreted in these situations including what specific behavioural competence as it related to professional scepticism was required.
- The examples would ideally focus on non-audit situations to reflect that there is already legacy content and research as it applies to application of professional skepticism in the context of auditors, but little consideration on what it might mean for a professional accountant performing a role such as Chief Executive Officer, Head of Treasury or Management Accountant.

**9. What implications do you see on IAASBs International Standards as a result of the options in Paragraph 18 to 21?**

Paragraph 18 - Professional skepticism as currently defined in the auditing standards

Please refer to our response to question 5. For paragraph 18, we believe the use of the auditing definition could lead to a potential dilution of the auditing requirement and application of it by auditors - especially if is being broadened to encapsulate professional accountants whose roles do not extend to evidence-based activities. Although the term is widely understood in the world of auditing, it is not widely understood by other professional accountants. In addition, for professional accountants in business, the audit requirements do not fit with the work that they perform.

Paragraph 19 - Professional skepticism re-defined

We believe that requiring all professional accountants to exercise the behaviours associated with professional skepticism is a welcome step - especially in an era when accounting functions and the roles of professional accountants require ever-increasing awareness about the integrity and complexity of financial and non-financial

information. However, simply redefining professional skepticism within the Code could lead to a number of unintended consequences, one of which could be the impact that this might have on the auditing definition of professional skepticism (by potentially diluting the relevance of any such definition) or the heightened level of confusion that this might create.

#### Paragraph 20 - Developing another term and definition

We do not see any implications for the auditing definition of professional skepticism or application in the ISAs if there is a different term created. For this solution to work effectively, the IESBA would need to develop a definition for the new term that makes it clear that it relates to all professional accountants and has the potential to be used by the multitude of roles performed by professional accountants. One advantage could be that by developing more of a foundational behavioural competence-based term and definition, in partnership with the IAESB learning outcomes and International Education Standard 4<sup>2</sup>, this could still enable the IAASB's definition to build on the foundational definition and yet still provide the specificity required for the auditor role. Depending on how any new term is defined, auditors would need to ensure that they are compliant with both the IAASB and IESBA definitions.

#### Paragraph 21 - Adding application material to the code

We do not see any implications to the auditing standard if there is application material added. As we noted earlier, we would support a range of scenarios being presented so that the majority of professional accountants (particularly those operating in business) have greater awareness of their responsibilities as they apply to the behaviours associated with professional skepticism.

#### **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 most meaningful to help professional accountants understand how bias, pressure and other impediments might influence their work.**

We believe that illustrative examples that we referred to in our response to question 8 could address bias, pressure and other impediments. The key is to provide situations that are easily recognizable by professional accountants in business as well as the variety of roles and tasks that professional accountants perform.

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<sup>2</sup> IES 4 - Initial Professional Development - Professional Values, Ethics and Attitudes

## Other matter

Based on feedback from BDO's participation at the roundtable sessions, we understand that there has been some initial discussion about consideration of a type of pledge or oath, similar to other professions (medical, police) to focus on professional skepticism (and potentially other areas of importance). Should the IESBA decide to progress this concept, we believe that for such an oath to be successful, it would need to be concise and focus on how it is perceived in the eyes of the public. There may also be challenges around (i) at which point individuals would be expected to make such an oath (whether at admission to the accountancy profession or whether it would apply to individuals who have been operating as professional accountants for a period of time) and (ii) how often professional accountants might be expected to re-pledge themselves in this manner. In addition, we question whether the IESBA has it within its remit to require such an oath by professional accountants and therefore, this matter might be better served if considered by the Independent Federation of Accountants (IFAC) (e.g., as a possible Statement of Membership Obligations (SMO)) or by the regulator community.

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We appreciate the opportunity to comment on the Consultation Paper, which has proven to be a substantial publication by the IESBA. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited

Chris Smith  
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