

17 August 2018

International Ethics Standards Board for Accountants (IESBA)

Email: kensiong@ethicsboard.org

Dear Sir

SAICA SUBMISSION ON THE IESBA'S CONSULTATION PAPER: PROFESSIONAL SKEPTICISM – MEETING PUBLIC EXPECTATIONS

In response to your request for comments on the Consultation paper: Professional Skepticism – meeting public expectations, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

Juanita Steenekamp (CA (SA))
Project Director – Governance and Non-IFRS Reporting



SAICA SUBMISSION ON THE
IESBA's Consultation paper: Professional Skepticism – Meeting Public Expectations
August 2018

Responding to this Consultation paper

Respondents are asked for views on the questions that follow. The options in paragraphs 18-22 are not mutually exclusive and we invite your views on any combination of options that you believe would be an appropriate approach.

Question1

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?

Yes, we agree with the premise that public trust of the profession of professional accountants does link to whether the information compiled, reviewed, audited or even other services provided by the professional accountant does imply that the information can be trusted. Information is a two-way communication for professional accountants in that they receive and provide information during the process of rendering professional services. During the process of their work professional accountants evaluate information received as to its veracity based on many important aspects and then uses that same information, if found to be suitable, to form an opinion, the expression of which is the service that the professional accountant provides. The decision-making that occurs during the evaluation of information received requires integrity in thinking and recognising that there are many cognitive challenges in arriving at an informed decision.

It should however be noted that professional accountants cannot be all things to all people and that there are limits to what professional accountants can find or pick up during an engagement or acting in a position.

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?

Yes, we agree with the behaviour required. Paragraph 7 refers to the expectations of professional accountants and paragraph 10 then refers to the expected mindset for such decisions. It may be helpful to provide more detailed guidance on impartial thinking and where appropriate add in a requirement to test the information or facts presented for reasonableness.

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?

Yes, we would support the mindset and behaviour being applicable to all professional accountants, depending on the level of the person. We therefore would support a scalable application similar to the NOCLAR application. The matter of scalability is not new and appears already in the NOCLAR provisions which differentiate between senior professional accountants and those 'other than senior' accountants.



SAICA SUBMISSION ON THE
IESBA's Consultation paper: Professional Skepticism – Meeting Public Expectations
August 2018

All professional accountants complying with the requirements of the Code of Conduct have accepted their responsibility to act in the public interest. The scepticism required from the professional accountant in business when acting as a member of those charged with governance is as relevant as that of the professional accountant in practice. When professional accountants in business present financial statements for an audit to the professional accountant in practice, the same standard of scepticism applies otherwise the integrity of the accountants become questionable. The interaction between professional accountant in business and the professional accountant in practice is not adversarial but based on mutual respect for each professional's conduct.

In the public's mind there does not really exist a clear distinction between one group of professional accountants and another and thus the public can well be entitled to assume that both groups in their provision of professional activities follow the same guidelines as to scepticism.

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?”

The Code sets out the five fundamental principles in a compelling way even when considering that there can always be other ways to achieve the same objective. The Code describes the behavioural characteristics of a professional accountant in detail, providing rules and guidance and application of the Code is compulsory for all professional accountants. The Code's more complex area is the concept of the 'Conceptual Framework Approach' which, while obligatory to comply with, may not be well understood and often lack application. It is the Conceptual Framework Approach that leads to the critical thinking needed and engages the sceptical attitude desirable for judgemental decision making. The code has become quite lengthy and non specialists; small firm auditors and businessman already find it quite cumbersome to cope with it, our suggestion is to rather release some practice notes or case studies as guidance rather than increase its length further.

Question 5

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

Due to the use of the term professional scepticism in the auditing context we would not support the use of the same wording for PAIB. To illustrate, the current words used refer to the following:

- *Questioning mind – agreeable term*
- *Conditions that indicate possible misstatement due to error or fraud – not all accountants have to value factors that indicate misstatements, therefore this part of the definition would not always apply to all professional accountants*
- *Critical assessment of evidence – this section specifically refers to the auditing section of the services provided and not all professional accountants need to assess evidence.*



We would therefore not support the use of the current definition and we believe that a different term should be used to identify this requirement. Moving the definition as contained in the ISAs would not solve the issue of confusion that can be created. Refer below to comments on critical mindset in question 6.

Questions 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.

We do not support the use of the term “professional skepticism” with a new definition. This will lead to professional accountants in practice having to consider two definitions depending on the services provided and it will create confusion in the market, the expectation from professional accountants in business and professional accountants in practice (specifically auditors) is not necessarily the same.

The code should just define critical mindset/thinking as a requirement for Public Accountants in Business defined as “Always being alert with a questioning mindset and where relevant to objectively analyse facts to form reasonable judgements.”

Questions 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?

We would support the alternative term as to ensure that it can be used by all professional accountants. Refer to question 6.

With reference to the expectations in paragraph 10 dealing with an impartial and diligent mindset, which speaks about an enquiring mind and applying that mindset together with professional expertise to the information, we would support the use of the term “critical thinking”. We would support the use of the term “critical thinking” as professional accountants need to use their rational and sceptical evaluation of factual evidence.

Critical thinking can also be seen as the objective analysis of facts to form a judgement, which is what is required of the professional accountant. Refer to question 6.

Questions 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



SAICA SUBMISSION ON THE
IESBA's Consultation paper: Professional Skepticism – Meeting Public Expectations
August 2018

most meaningful to enhance the understanding of these behavioural characteristics and professional skills.

In our view we believe that additional material to describe the behaviour and relevant skills might be helpful. The chapter on 'Ethical Conflict Resolution' could guide as assistance in designing a chapter on 'Ethical Decision Making.' Of course, both topics combined into one chapter can also be helpful in terms of shortening the code. Please though be heedful of our comments in question 4. The code has become quite lengthy and non-specialists; small firm auditors and businessman already find it quite cumbersome to cope with it, our suggestion is to rather release some practice notes or case studies as guidance rather than increase its length further.

Questions 9

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

Para 18 – should the same terminology be used there will be no implications for the IAASB standard but there may be implications for other board / professional bodies representing professional accountants who are not auditors. To require all professional accountants to exercise professional scepticism as outline in the manner defined in the ISAs is in our view not appropriate as the terms is very specific to assurance.

Para 19 – Should the terms professional scepticism be used with the development of a new definition of scepticism into the Code, it would avoid some of the difficulties described in paragraph 18. In this way, there can be a general definition of professional scepticism, with each field, such as auditing adapting this to their specific circumstance.

This might however have implications for the IAASB and the confusion created by using the same terminology for different expectations. The IAASB's definition and use of the term "professional scepticism" has been accepted and used over a long period. If the IESBA decides to use the same terms and definition then the IESBA and the IAASB would need to co-ordinate this process.

Para 20 – a new term and definition would not impact the IAASB unless that are fundamental differences between the definition of the revised term and what is included in the ISAs.

Para 21 - The impact on the IAASB standards of this option will depend on the content of the application material and whether this affects the manner in which the ISAs currently require the auditor to exercise professional scepticism and the documentation of this in the audit file.

Questions 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 scepticism in the circumstances? If yes, please suggest the type of materials that in your view would be the most meaningful to help



SAICA SUBMISSION ON THE
IESBA's Consultation paper: Professional Skepticism – Meeting Public Expectations
August 2018

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

The code has become quite lengthy and non specialists; small firm auditors and businessman already find it quite cumbersome to cope with it, our suggestion is to rather release some practice notes or anonymised real life case studies as guidance rather than increase its length further.

There is already a different section in the Code applicable to PAIB separate from the provisions for PAIP and thus that methodology could be maintained regarding scepticism. Section 100 would then contain a two-part definition as relevant to the two distinct activities of PAIP and PAIB, but which has an overarching relevance to scepticism as applies to the broader context of a role as a professional accountant (IAESB). Having a sceptical attitude or perhaps a critical frame of mind, is an integral part of the professional accountant's mindset and speak undeniably to the fundamental principle of Objectivity and how to attain compliance with that principle. The desired application material can be included in different sections of the Code, section 2 for PAIB and section 3 for PAIP without causing further confusion.