

**IAASB Project – Professional Scepticism**  
**AUASB Technical Group Feedback (views may not be representative of the AUASB)**

<b>Project Objective</b>	<b>AUASB SMEs</b>
<p>To obtain the views of the IAASB on the Professional Scepticism IAASB Subgroup1 (the Subgroup) conclusions and recommendations related to a requirement to seek contradictory evidence as part of the concept of professional scepticism.</p>	<p>Noel / Marina</p>
<p><b>AUASB Key Points</b> Refer comments below.</p> <p><b><u>Overall comments</u></b> From a review of the IAASB March agenda papers and the extensive discussion on the use of the term “inconsistent evidence” rather than “contradictory evidence” and the impact this is likely to have on the auditors with regard to:</p> <ul style="list-style-type: none"> <li>• application of professional judgement</li> <li>• when to seek evidence from other sources</li> <li>• the work effort used to seek other sources of evidence; and</li> <li>• the work effort in relation to evidence obtained from other sources.</li> </ul> <p>The AUASB ATG agree with all the recommendations of the subgroup below.</p> <p><b><u>Key Points from March IAASB Meeting papers:</u></b></p> <p><b><u>Subgroup Recommendations</u></b> Based on its analysis and conclusions, the Subgroup has the following recommendations in the public interest:</p> <ol style="list-style-type: none"> <li>1. To henceforth use the term “inconsistent evidence” rather than “contradictory evidence” in IAASB pronouncements;</li> <li>2. To not add a requirement to seek inconsistent evidence in all circumstances;</li> <li>3. To recognize the important role of professional judgment when making decisions about when to seek evidence from other sources, the work effort that should be applied when seeking such evidence, and how inconsistent evidence ought to be dealt with in practice; and</li> <li>4. As part of the future work program of the IAASB, the IAASB may need to consider whether to provide additional guidance on the factors that auditor may need to consider when making decisions on when to seek evidence from other sources, the work effort that should be applied when seeking such evidence, and how inconsistent evidence ought to be dealt with in practice.</li> </ol> <p>It is also noted that in relation to Recommendation 2 and 3 that this thinking has now been applied in the revision to ISA 540. The application on professional scepticism has been tightened and additional application material now included to demonstrate that auditors <b>are not</b> expected to specifically search for contradictory evidence (para A92E).</p> <p>Recommendation 4 interplays with the current requirements in ISA 330 and ISA 500 that direct the auditor to what needs to be done at an appropriate level of work effort with evidence obtained from other sources, including inconsistent evidence, and direct the auditor to consider all evidence obtained, whether corroborative or inconsistent. However, the question arises whether guidance could be given on how auditors ought to deal with evidence that is not sufficiently relevant or reliable and how the resolution of inconsistencies between evidence might be undertaken in practice. The question also arises whether guidance could be given on other factors that an auditor might need to take into account when considering how to “weigh” inconsistent evidence.</p> <p><b><u>Key Points from December IAASB Meeting papers:</u></b></p> <p>Issue paper deals with whether the definition of professional scepticism (PS) needs to change as it is predicated on the concept of “a questioning mind”. The current definition of PS in the ISAs is “An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence”.</p>	

The paper raises the "mindset concept" of PS from an attitude of "questioning mind" (QM) to 'challenging mindset'. Respondents to ITC who suggest changing the 'mindset' concept of PS therefore believe the current definition of PS would need to change as it currently uses the "QM" concept as distinct from the "challenging mind" concept which is based on presumptive doubt.

Issue with presumptive doubt is the need to relate to specific matters not to be general. Need evidence for PD to be applied in an audit. PD could be applied to very specific matters already applied to assertions in financial statements and ISA 580 written management representations can only be used to support other audit evidence.

Therefore PD is an implied concept within the ISAs and doesn't need to be explicitly included in the ISAs and won't assist with the concept of improving the quality of ISAs.

The concept of a doubting mind does not cover concepts like objection, challenge, disputation and inquiry. However "QM" covers doubt and doubting mind and as such the definition of PS should not be changed to include 'doubting mind' rather than "QM".

The concept of "QM" definition is broader than "Challenging Mind". QM encompasses challenging as just a more severe form of 'questioning'.

Outcome: As such the definition that the ISAs apply being QM is to be retained, rather than moved to 'challenging mind'. ATG don't have any issues with this position based on the paper presented noting that the overall paper considers the 'plain english' definitions of the key terms. The problem is not definitional but in the execution of PS.

Other Areas to Note:

PS has direct links to the other IAASB Task Force's on ISA 315, ISQC1 and ISQC2 and any suggested changes to the concept of PS by the PSWG will have a flow affect to these TF's.

Noted at the AUASB teleconference on 5/12/17 by AUASB Member Nonna Martinov-Bennie that IESBA has issued a paper on PS and that the AUASB needs to be aware of this and where this may head in the future.

**Other significant areas to note:**

- None noted at this time.

**AUASB influencing activities**

AUASB Technical Director to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair.

**Next steps / milestones for this project**

No further information noted in the meeting papers.