

August 15, 2018

International Ethics Standards Board for Accountants

Via online submission: <http://www.ifac.org/publications-resources/global-ethics-board-consults-professional-skepticism>

Dear Members:

Re: Professional Skepticism – Meeting Public Expectations Consultation Paper

Thank you for the opportunity to comment on the above-noted document. MNP LLP (MNP) is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include a sizable contingent of publicly traded entities, as well as small to mid-sized owner-managed businesses, credit unions, co-operatives, First Nations (i.e. Indigenous peoples in Canada), not-for-profit organizations, municipalities and government entities. We believe that we are positioned well to provide feedback on this important issue.

We have reviewed the Consultation Paper ("the Paper") and have provided our comments below.

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?

We agree the public has an expectation of being able to rely upon information with which a professional accountant is associated. Despite past efforts to inform the public of the roles of professional accountants, whether in financial information preparer or auditor positions, and the inherent limitations therein, the public expectations gap may not be closing. Instead, the public expectations gap may be widening.

We believe that additional guidance on professional skepticism will assist professional accountants in properly executing their respective roles; however, application of the guidance by the professional accountant may do little to narrow the public expectations gap. The IFAC, IESBA and IAASB should continue to explore root causes of the public expectations gap and options to address this key issue in the profession.

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?

We agree with the behaviour associated with public expectations of professional accountants (i.e., to approach professional activities with an impartial and diligent mindset and apply that mindset together with professional expertise to the evaluation of information with which they are associated).

We believe these behaviours are already implicitly required by the fundamental principles in the Code (e.g., integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour). Therefore, these public expectations do not create new requirements amongst professional accountants.

Question 3: Paragraphs 13 and 14 – Do you agree that the mindset and behavior described in paragraph 10 should be expected of all professional accountants? If no, why not?

We agree that the mindset and behaviour described in paragraph 10 should be applied by all professional accountants. We believe that application of these behaviours at all levels and by all professional accountants will

assist to ensure that errors are not present in financial information before such information is at the stage of being subject to audit. Further, we believe that professional accountants should also apply these behaviours to non-financial information they are associated or otherwise involved with.

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”?

As noted in our response to Question 2, we believe the fundamental principles already implicitly encompass the behaviours associated with the exercise of appropriate professional skepticism. However, we agree that further application guidance and illustrative examples are needed to tie together the concepts in the various fundamental principles with the overarching concept of professional skepticism.

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

We believe that the term “professional skepticism” as defined in the International Standards on Auditing is an appropriate term to use. The definition utilized in the ISAs – 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 the evidence – is consistent with the desired behaviours described in paragraph 10. Our responses to Questions 6 through 9 further elaborate on our support of the continued use of this term.

Question 6: Paragraph 19 – Do you believe that the Code should retain/use the term “professional skepticism” but develop a new definition? If so, do you support a new definition along the lines set out in paragraph 19? If you do not support a definition along the lines described, could you please provide an alternative definition.

In the past several years steps have been taken to enhance the understanding and application of professional skepticism from an auditor perspective. To the extent that financial statement users are sophisticated and have a solid understanding of the ISAs, these efforts have enhanced user understanding of this concept as well. There would be an added benefit of continued use of the term “professional skepticism” in efforts to improve application of the behaviours described in paragraph 10 through updates of the Code.

We believe that the definition utilized in the ISAs is a good starting point, and that this definition can be expanded along with application guidance to ensure applicability to all areas in which professional accountants are involved. The additional explanation in paragraph 19 provides an alternative wording of the same concept which is applicable to non-assurance activities of professional accountants.

In addition to the differentiation between assurance vs. non-assurance activities, scalability in the application is required based on the level/experience of the professional accountant and the type of activities being performed. Therefore, the application guidance added to the Code should provide examples of how to fulfill the requirements when undertaking various levels of professional activity.

Question 7: Paragraph 20 – Would you support an alternative term to “professional skepticism”, such as “critical thinking”, “critical analysis”, or “diligent mindset”? 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 do not believe that a rebranding of the underlying concept, alone, will lead to enhanced understanding or application. We support continued use of the term “professional skepticism”.

Utilization of the term which is already applied generally for the concept will assist in the ease of understandability and application of any new guidance released. In this way the changes will provide further guidance on a topic which individuals are already familiar with, as opposed to a rebranding, which may be viewed by individuals as introduction of a new concept.

As noted in our response to Question 6, provided sufficient application guidance in the Code, we do not believe the use of the same term as used in the ISAs will lead to any confusion on application or unintended consequences.

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 behavioral characteristics and professional skills.

We agree that the IESBA should develop additional application guidance to highlight the importance of professional skepticism. Such guidance should encompass an explanation of the desired behaviour required to appropriately apply professional skepticism. The guidance should link this behaviour to the existing fundamental principles (e.g., integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour), explaining how all the concepts are pulled together. It would be helpful to provide situation-based examples, with application guidance on how to appropriately apply professional skepticism in various scenarios.

We believe it would be beneficial to have additional educational materials developed and to have accounting bodies make such training a mandatory continuing professional development requirement on a recurring basis.

Question 9: What implications do you see on IAASB’s International Standards as a result of the options in paragraph 18-21?

Professional skepticism is a mindset and behaviour which cannot be prescribed through a specific set of requirements or items on a checklist. From an auditor perspective we would support additional application guidance on how an auditor can appropriately document/evidence that professional skepticism has been applied. For example, in what situations do analytics/inquiry provide support that professional skepticism has been applied?

As noted in our response to Question 2, we believe the concepts described in the Paper are already implicitly required by the Code’s fundamental principals. Therefore, the addition of application guidance and educational materials should simply enhance, in practice, the application of the current requirements. As the concepts described in the Paper are consistent with the requirements and definitions in International Standards on Auditing, we do not foresee any unintended consequences which would require further changes to the IAASB’s standards.

We believe the additional guidance added to the Code must address the scalability of application for the professional accountant performing a variety of services and with a variety of professional experience. For example,

actions undertaken to meet the requirements of professional skepticism will differ between an accountant performing audit services, review engagement services, and compilation services.

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.

Consistent with our comments to Question 8, we believe situation-based application guidance would be helpful. Such scenarios would be beneficial if they included examples of how to overcome impediments. For example, certain biases or pressures on management can create a need for the auditor to apply a higher degree of skepticism to the information management has provided. Conversely, other biases or pressures that act on the auditors themselves could impact the auditor's own ability to appropriately apply skepticism in the situation.

Additional comments:

From a Canadian perspective, many public entities in Canada would be considered small or medium-sized entities in comparison to large global or multi-national entities. Recommendations to improve professional skepticism from an institutional investor, or other large user perspective, may be challenging to apply to smaller entities and/or unnecessary in the context of a smaller audit environment. We would encourage the IESBA to focus on scalable application guidance, as opposed to prescriptive requirements.

We look forward to reviewing the IESBA's deliberations and responses to comments received and providing additional comment on future consultation papers put forward by the IESBA.

Yours truly,

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