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Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

**GAO's Response to the International Ethics Standards Board for Accountants' May 2018 Consultation Paper, *Professional Skepticism – Meeting Public Expectations***

Dear Mr. Siong:

This letter provides GAO's response to the consultation paper, *Professional Skepticism – Meeting Public Expectations*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States. GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. Our comments reflect the importance we place on reinforcing the values promoted in both the *Code of Ethics for Professional Accountants* (the Code) and GAGAS.

We appreciate the International Ethics Standards Board for Accountants' (IESBA) efforts to address the behaviors associated with appropriate professional skepticism. However, we believe that professional skepticism is a specific term applicable to professional accountants who perform audits, reviews, and other assurance engagements, and we are concerned that if the concept is applied to all professional accountants the term will ultimately be interpreted differently and its importance to auditing and assurance engagements will be diminished. Generally, we believe that the fundamental principles in the Code are sufficient to support the behaviors associated with the exercise of appropriate "professional skepticism," and we suggest that IESBA consider enhancing application guidance to discuss behaviors that may assist professional accountants in complying with the Code.

**Specific Comments**

- 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 that the public expects information with which a professional accountant is associated to have been prepared with the benefit of the accountant's skills and experience so that the information can be relied upon for its intended use.

- 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 support the current requirement from the Code that professional accountants shall comply with the fundamental principles of ethics: integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

**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?**

We agree that the mindset and behavior described in paragraph 10 are currently expected and required of all professional accountants as provided by the requirement in the Code that professional accountants comply with the fundamental principles of ethics.

**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”?**

Generally, we believe that the fundamental principles in the Code are sufficient to support the behaviors associated with the exercise of appropriate “professional skepticism.” However, we suggest that IESBA consider adding application guidance as discussed in paragraphs 21 and 22 of the consultation paper to explain that professional accountants may face impediments to complying with the fundamental principles and how they are expected to behave when faced with these impediments. IESBA should also consider adding application guidance to provide criteria to assist professional accountants in business in determining how to act in different situations, such as the following:

- the accountant has a difference of opinion with management or a senior financial officer regarding how to apply an accounting standard;
- the accountant is requested by management to record an estimate that may be considered an aggressive interpretation of the accounting standards; or
- the accountant is requested to record a clearly fraudulent accounting entry.

For example, the application guidance could clarify the expectations of an accountant in business if management and the accountant had different interpretations of an accounting standard that are both appropriate, but the accountant has a more conservative interpretation than management.

**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 professional skepticism is a specific term applicable to professional accountants who perform audits, reviews, and other assurance engagements. In our view, the meaning of the term and its importance to auditing and assurance engagements will be diminished and it will ultimately be interpreted differently if the concept is applied to all professional accountants.

The GAGAS definition of professional skepticism, similar to that of other standard setters, includes awareness of conditions that may indicate possible misstatement owing to error or fraud and a critical assessment of evidence. As noted in the consultation paper, we agree that the concepts of misstatement and evidence are assurance concepts and not appropriate for general application by all professional accountants. An auditor is required by International Standards on Auditing (ISA) to consider the relevance and reliability of audit evidence. If IESBA required all professional accountants to

exercise professional skepticism as defined in the ISAs, IESBA should consider in which situations professional accountants in business would perform additional work to verify the relevance and reliability of information provided to them. For example, the standards require auditors to consider the competence, capabilities, and objectivity of management's experts. If professional accountants in business were required to exercise professional skepticism, would they be required to consider the competence, capabilities, and objectivity of other staff or management? Also, the ISAs provide that evidence is more reliable if it is obtained from outside the entity and exists in documentary form. Would professional accountants in business be expected to obtain documentation from outside the entity before recording accounting entries? In our view, considerations for how professional accountants in business would evaluate information have potential implications that would make it difficult to require all professional accountants to exercise professional skepticism as defined in the ISAs.

We also suggest IESBA consider how the requirements of professional skepticism would be monitored and enforced. Currently, in the United States, the requirements for auditors are monitored through peer reviews, inspections performed by the Public Company Accounting Oversight Board, and states' boards of accountancy, as applicable, and are enforced through disciplinary measures, such as suspension or revocation of an auditor's license. Also, the U.S. Securities and Exchange Commission and states' boards of accountancy have mechanisms to enforce certain laws and regulations pertaining to professional accountants in business. However, we are not aware of any mechanisms that could effectively monitor and enforce compliance with professional skepticism requirements for all of the work of professional accountants in business, and it is difficult for us to perceive of such a mechanism. For example, when professional accountants in business prepare financial or nonfinancial information for internal use, rather than for financial reporting purposes, it would be challenging for an external entity to monitor and enforce the use of professional skepticism with respect to that information. We are concerned that adding professional skepticism requirements for professional accountants in business would be problematic given the challenges of monitoring and enforcing the requirements.

**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?**

As detailed in our response to question 5, we believe that professional skepticism is a specific term applicable to professional accountants who perform audits, reviews, and other assurance engagements, and we are concerned that applying the concept to all professional accountants would dilute the meaning of the term.

**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 focuses on the mindset and behaviors to be exercised by all professional accountants?**

As noted in our response to question 4, generally, we believe that the fundamental principles in the Code are sufficient to support the behaviors associated with the exercise of appropriate “professional skepticism” and suggest that IESBA consider adding application guidance to assist professional accountants in complying with the Code.

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

We suggest that IESBA consider developing application guidance that discusses how critical thinking, critical analyses, moral courage, and awareness of bias and pressure can assist professional accountants in complying with the fundamental principles of the Code.

- 9. What implications do you see on IAASB’s International Standards as a result of the options in paragraphs 18 to 21?**

As detailed in our response to question 5, we believe that professional skepticism is a specific term applicable to professional accountants who perform assurance engagements. In our view, the meaning of the term and its importance to auditing and assurance engagements will be diminished and it will ultimately be interpreted differently if the concept is applied to all professional accountants.

- 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.**

As noted in our response to question 8, we suggest that IESBA consider developing application guidance that discusses how critical thinking, critical analyses, moral courage, and awareness of bias and pressure can assist professional accountants in complying with the fundamental principles of the Code. We also believe that education and training in these behavioral characteristics may further assist professional accountants in adhering to the fundamental principles.

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin  
Director  
Financial Management and Assurance