



Grant Thornton

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Proposed Application Material Relating to: (a) Professional Skepticism – Linkage with the Fundamental Principles; and (b) Professional Judgment – Emphasis on Understanding Facts and Circumstances

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the May 2017, Exposure Draft (ED) Proposed Application Material Relating to: (a) Professional Skepticism – Linkage with the Fundamental Principles; and (b) Professional Judgment – Emphasis on Understanding Facts and Circumstances approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

GTIL is an umbrella organisation that does not provide services to clients. Services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding concern.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high-quality standards that will enhance the profession.

General Comments

GTIL supports the Board's work with regards to the proposed application material to:

- (a) describe how compliance with the fundamental principles in the Code supports the exercise of professional skepticism in the context of audit and other assurance engagements, and
- (b) emphasize the importance of professional accountants obtaining a sufficient understanding of the facts and circumstances known to them when exercising professional judgment in the complying the conceptual framework.

However, with respect to the Board's consideration to extend the applicability of professional skepticism to all professional accountants, we believe this objective has been adequately addressed by the standards promulgated by the International Education Standards Board (IESB) as follows:

- Applicable to all professional accountants, IES 3, Initial Professional Development – Professional Skills (2015), paragraph 7(c) (ii) includes as a learning outcome for professional skills the need to “apply professional skepticism through questioning and critically assessing all information.”
- Applicable to all professional accountants, IES 4, Initial Professional Development – Professional Values, Ethics and Attitudes, paragraph 11(a)(i) includes as a competency area for professional values, ethics and attitudes “professional skepticism and professional judgment.” It also describes related learning outcomes as follows:
 - “Apply a questioning mind set critically to assess financial information and other relevant data; and
 - Identify and evaluate reasonable alternatives to reach well-reasoned conclusions based on all relevant facts and circumstances.”

Accordingly, we recommend the Board consider including the concepts of professional skepticism as discussed in IES 3 and 4 in the restructured Code.

Furthermore, one must consider that professional accountants performing audits of financial statements are reviewing information provided by client management through a different lens than a professional accountant performing a non-attest service or when performing services as a professional accountant in business. Audit practitioners must assess “evidence” in order to express reasonable assurance over the accuracy of financial statements. This requires auditors to obtain extensive explanations and persuasive evidence from their client's management in order to be able to express reasonable assurance over the accuracy of the financial statements they are auditing.

Whereas professional accountants performing non-audit services or professional accountant in business, these individuals are interpreting the information provided by client management in a different context to help support the client in achieving certain objectives and goals. We believe in these circumstances, it is critical for the professional accountant to exercise professional judgment regarding the nature and scope of the professional activity being undertaken and the information being provided by their client.

Accordingly, we are recommending that the Board consider extending the application of the fundamental principle of professional judgment, as proposed in Section 120.5 A1 in the ED, to all professional accountants.

Request for Specific Comment

Proposed Application Material Relating to Professional Scepticism (paragraph 120.13 A1)

1. *Do respondents agree that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code?*

GTIL agrees that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code and helps to clarify the professional accountants responsibilities under the fundamental principles of integrity, objectivity, and professional competence and due care.

However, we would like the board to consider including application material for professional behaviour, as we believe this fundamental principle is also an integral and critical part in performing quality audits and mutually correlates to the fundamental principle of objectivity. Many national laws and regulations have incorporated into their doctrines relationships and services that if performed by a professional accountant for an audit client would be considered a breach of law. So in addition to breaching the fundamental principle of objectivity by performing a service or entering into a relationship that can create a bias impairing the professional accountant's objectivity, they have also breached the fundamental principle of professional behaviour by not complying with applicable laws and regulations.

2. *Do the examples in the proposed application material clearly describe how compliance with the fundamental principles of integrity, objectivity, and professional competence and due care support the exercise of professional skepticism in the context of an audit of financial statements? If not, why not?*

GTIL agrees that the proposed application material clearly describes how compliance with the fundamental principles of integrity, objectivity, and professional competence and due care support the exercise of professional skepticism in the context of an audit of financial statements.

Proposed Application Material Relating to Professional Judgment (paragraph 120.5 A1)

3. *Do respondents agree that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code?*

GTIL agrees that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code.

4. *Do respondents agree that the proposed application material appropriately emphasizes the importance of professional accountants obtaining a sufficient understanding of the facts and*

circumstances known to them when exercising professional judgment in applying the conceptual framework? If not, why not?

GTIL agrees that the proposed application material appropriately emphasizes the importance of professional accountants obtaining a sufficient understanding of the facts and circumstances known to them when exercising professional judgment in applying the conceptual framework.

GTIL would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director - Global Independence at gina.maldonado-rodek@gti.gt.com.

Sincerely,

A handwritten signature in black ink that reads "F C Lagerberg". The letters are cursive and somewhat stylized.

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