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By email: KenSiong@ethicsboard.org

Dear Ken

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

CPA Australia welcomes the opportunity to respond to the above Exposure Draft. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the clarification of the status and utility of professional scepticism and commends the IESBA, IAASB and the IAESB on the establishment of the tripartite Professional Skepticism Working Group (PSWG).

We are of the view that professional scepticism is relevant to audit and assurance engagements and associated to independence and support its application to audit and assurance engagements only. However, the differences in the conceptualisation and use of professional scepticism within the accounting profession's standard setters confirms the need for more work and clarity in this area.

We are of the view that the proposed application material does not adequately clarify the status and utility of professional scepticism and consider that it may be premature to develop application material when the concept has not been clearly articulated and defined.

We urge IESBA to continue the coordinated work with the IAASB and the IAESB so that a clear and useful conceptualisation across the three Boards is achieved and once that is accomplished then review the Code of Ethics for Professional Accountants for necessary improvements and application material.

As we stated in our comments to the IAASB consultation: *Enhancing audit quality in the public interest: a focus on professional skepticism, quality control and group audits*, professional scepticism is described as an attitude. An attitude is generally understood as a predisposition towards something, while the extant description of professional scepticism mentions a 'questioning mind', 'being alert' and 'a critical assessment'. We do not think that these characteristics are attitudes but rather professional competencies. We urge the PSWG to review the existing description of professional scepticism by referring to relevant research and to articulate its characteristics and attributes. Further we note that when

seeking to identify the meaning of professional scepticism in our discussions with stakeholders, professional scepticism was perceived as relating to various professional competencies rather than necessarily a separate principle or competency in itself.

The relationship between professional judgement and professional scepticism also remains unclear. If professional judgement and compliance with the fundamental principles is achieved, so that professional accountants behave with integrity, objectivity and professional competence and due care, then what does professional scepticism offer or add to the decision making process? If the fundamental principles are not adequate to ensure professional and ethical behaviour for all professional accountants in all activities then the gap ought to be identified and addressed, while we note that we do not consider professional scepticism to be an ethical principle.

Generally, CPA Australia considers any changes to the Code in relation to professional scepticism premature and the proposals of this exposure draft require further development. We support the consideration of professional scepticism through the PSWG and an evidence based and considered development of the concept, its use and value. Such an approach should also consider better defined means of developing and sustaining professional scepticism, as well as appropriate means of its measurement and assessment.

In relation to professional judgement, we are of the view that the proposed application material is too restrictive and we urge IESBA to develop application material for professional judgement that emphasises not only facts and circumstances but all relevant ethical, professional and technical requirements appropriately and particularly addresses the public interest and associated obligations for professional accountants.

Specific Comments

Proposed Application Material Relating to Professional Skepticism (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?*

As mentioned in our general comments, it is unclear how the proposed application material enhances the understandability of the conceptual framework. We think this is the case because the status and utility of professional scepticism is unclear. The proposed application material is seeking to connect professional scepticism with the fundamental principles. As such, professional scepticism is not clearly understood as a principle and we agree with that approach. But it is unclear what professional scepticism is and whether it is necessary for compliance with the fundamental principles to be achieved.

We urge IESBA to continue the coordinated work with the IAASB and the IAESB so that a clear and useful conceptualisation across the three Boards is achieved and once that is accomplished then review the Code of Ethics for Professional Accountants for necessary improvements and application material.

- 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?*

We are of the view that the proposed application material does not clearly describe how compliance with the fundamental principles supports the exercise of professional scepticism. We are also unsure that this should be an appropriate function of the fundamental principles, as we consider that compliance with the

fundamental principles would necessarily result in the right attitudes and behaviours in all contexts and engagements.

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?*

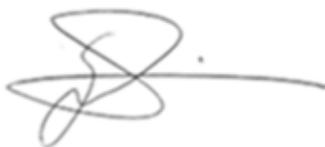
We are of the view that the application material relating to professional judgement does not enhance the understandability of the conceptual framework. We see the proposed application material of professional judgement as primarily being a reiteration of the fundamental principle of professional competence and due care. Practical wisdom or phronesis may provide some assistance in understanding professional judgement for professional accountants.

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?*

As mentioned in our response to question 3, obtaining a sufficient understanding of the facts and circumstances is necessary so that professional accountants comply with the fundamental principles, particularly integrity and professional competence and due care. We understand professional judgement as the ability to consider all relevant ethical, professional and technical requirements appropriately. The proposed application material focuses on 'training, knowledge and experience taking into account the nature and scope of the professional activity being undertaken'. To make good professional judgments, it is not only adequate to have appropriate training, knowledge and experience and understanding of facts and circumstances but to have considered the appropriate end or outcome of the activity and the duties and responsibilities attributed to the professional accountant. To that end, we urge IESBA to ensure that the public interest and associated obligations for professional accountants are addressed in the application material for professional judgement.

If you require further information on our views expressed in this submission, please contact Dr Eva Tsahuridu, CPA Australia on +61 3 9606 5159 or by email at eva.tsahuridu@cpaaustralia.com.au.

Yours sincerely



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