

Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
529 Firth Avenue  
New York  
NY 10017

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[Submitted via email]

Dear Mr Siong

***International Ethics Standards Board for Accountants ('IESBA')***  
***ED on proposed application material relating to professional scepticism and professional judgement***

Chartered Accountants Ireland ('the Institute') is pleased to have the opportunity to comment on the 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*.

This response has been prepared primarily by the Institute's Audit and Assurance Committee ('AAC'), whose focus is on professional accountants performing audit and other assurance engagements. This is consistent with the focus of the IESBA consultation.

We note in the explanatory memorandum in the consultation paper, however, the references to stakeholders' views that the concept of professional scepticism should be relevant to all professional accountants. We noted also, that it is the intention of the IESBA to further consider whether and how the Code of Ethics should address the applicability of the concept in such a wider fashion. Therefore, our Ethics and Governance Committee ('EGC') has also considered these proposals from the perspective of professional accountants operating outside of practice and has added comments where appropriate.

Both the AAC and the EGC support the intention of the IESBA to carry out further work in this regard, though as noted in the response to question 1 below, our preference would be for this consideration to be carried out in a shorter timeframe to coincide with the proposed changes pertaining to professional accountants who perform audit and other assurance engagements.

***Public practice***

From a public practice perspective, as discussed in our response to the IAASB's *Invitation to Comment - Enhancing Audit Quality in the Public Interest* (May 2016), we believe that it is necessary to develop a better common understanding of what is involved both in maintaining an appropriate attitude of scepticism in the course of an engagement, and in demonstrating its maintenance by way of documentation. In order to achieve this, we suggested that it would be necessary to articulate in guidance the key specific, concrete actions that will ordinarily be sufficient

to demonstrate the appropriate attitude of professional scepticism. Therefore, we welcome any additional guidance on how this can be achieved as outlined in the proposed additional application material.

However, we would observe that there needs to be consideration of how a practitioner can achieve the appropriate balance in managing the many constraints that may be associated with an engagement and still effectively maintain and demonstrate a sufficient level of professional scepticism and while the suggested guidance is welcome, it must be noted that the auditor is always going to be somewhat constrained by both time and resources. This is particularly relevant in the context of cases where regulators may conduct inspections and reviews with the benefit of hindsight and may, therefore, hold auditors to an impossibly high standard, ignoring the constraints in play at the time of the engagement.

We note that the IAASB had a separate consultation on the issue of professional scepticism and encourage the Boards of the IESBA and the IAASB to work closely together in finalising requirements and guidance in relation to professional scepticism. It is important that the standards of both Boards take a consistent approach on the application of professional scepticism to audit and assurance engagements.

We comment below on the specific questions raised in the consultation paper.

## **Request for Specific Comments**

### ***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?**

Paragraph 15 of International Standard on Auditing 200 (ISA 200) requires that the auditor shall plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated. The application material in ISA 200 has further guidance on what this means in terms of an audit. We welcome the additional application guidance suggested by IESBA which we feel further enhances the understandability of the conceptual framework.

We note that the proposal is to include this additional guidance material in Section 120 under the heading “Consideration for Audits, Reviews, and Other Assurance Engagements”. Both the AAC and the EGC consider that the proposed application material is equally applicable to all professional accountants and should be broadened in scope to apply instead to all professional accountants in their professional roles. We consider that application guidance and relevant examples should be included specifically for professional accountants in business. Such guidance could encompass the relevant documentation of the application of professional scepticism in a non-practice context, e.g. correspondence, minutes of board meetings noting sceptical thought processes involved, etc.

We note that this is part of the longer term plans of the IESBA, as discussed in paragraph 12 of the Explanatory Memorandum to this exposure draft but our preference would be that the additional guidance is not restricted to Audits, Reviews, and Other Assurance Engagements in the short term.

- 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 scepticism in the context of an audit of financial statements? If not, why not?**

An attitude of mind is not fully amenable to a detailed, prescriptive process but we welcome steps to provide examples of how to document and record the key specific steps a practitioner takes to show that they have maintained an attitude of professional scepticism.

We note that the proposed application material discusses three of the five fundamental principles; however, confidentiality and professional behaviour are not included in the proposed application material. We believe that the guidance should highlight that all of the fundamental principles are “interlinked” and in order to allow the auditor to wholly demonstrate and exercise professional scepticism, the examples in the proposed application material should cover all five principles.

The need for professional scepticism is, we feel, already a well-documented requirement in the audit of financial statements. While the inclusion of the audit examples in the Code is useful it may be equally beneficial to have additional examples from review and other assurance 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?**

Paragraph 16 of ISA 200 requires the auditor to exercise professional judgment in planning and performing an audit. The application material in ISA 200 has further guidance on what this means in terms of an audit.

We believe that the inclusion of additional application guidance on professional judgement brings useful experience and examples to a wider audience.

There was some confusion as to the link between the explanatory memorandum and the proposal to include application guidance after sections R120.4 and 120.4 A1. While the explanatory memorandum clearly discusses the application of professional judgement in terms of all professional accountants, the proposed application guidance only contains likely scenarios arising in practice. We recommend that relevant examples specific to professional accountants in business also be included here.

- 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?**

We agree that the proposed application material helps emphasise the importance of obtaining sufficient understanding and exercising professional judgment from a public practice perspective, though we acknowledge

that there can never be an absolute guarantee that all relevant facts and circumstances can be known to the professional accountant.

We feel that the proposed application material will assist professional accountants by emphasising the importance of obtaining a sufficient understanding of the facts and circumstances when exercising professional judgment.

We refer again, however, to the absence of proposed examples relevant to professional accountants in business.

We would also emphasise the importance of ensuring that there is sufficient clarity between the Code requirements and the application material/guidance.

If there are any matters in our comments which would be helpful to discuss in more detail we would be happy to do so. Please feel free to contact my colleague Anne Sykes, Secretary to the AAC, in that regard on +353-1-6377313 or by email to [Anne.Sykes@charteredaccountants.ie](mailto:Anne.Sykes@charteredaccountants.ie)).

Yours sincerely



Mark Kenny  
Director, Representation and Technical Policy