

Mr Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
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27 July 2017

Proposed Application Material Relating to Professional Skepticism – Linkage with the Fundamental Principles and Professional Judgment – Emphasis on Understanding Facts and Circumstances

Dear Mr Siong

We are pleased to comment on the Exposure Draft *Proposed Application Material Relating to Professional Skepticism – Linkage with the Fundamental Principles and Professional Judgment – Emphasis on Understanding Facts and Circumstances*. We continue to support the Board's efforts to improve the Code and enhance its usability and effectiveness.

The ability of an auditor to exercise professional skepticism is critical to an effective audit and, as noted in the Explanatory Memorandum, audit regulators have consistently identified professional skepticism as a finding in the global survey of audit inspection reports. Accordingly, we understand the Board's desire to respond to the recommendations of the Professional Skepticism Working Group (PSWG) and provide guidance to auditors on how the fundamental principles support the exercise of professional skepticism. However, we understand that the work of the joint project of the IESBA, IAASB and IAESB continues and may give rise to further recommendations for changes to the Code in the future. As such we are concerned that this current change is being made at the sacrifice of a more holistic assessment of the Code and that once the long-term project is completed other changes may follow.

In the attachment we have made some suggested changes to the wording proposed by the Board in section 120.13 A1 *Professional Skepticism*.

With respect to the application guidance regarding professional judgment, such guidance provides a useful reminder of the factors that underpin professional judgment and we concur with the proposed wording. However, we do recommend one minor change to the first sentence which currently reads as follows:

“Professional judgment involves the application of training, knowledge and experience taking into account the nature and scope of the professional activity being undertaken”

In our opinion, the use of the word “training” is inappropriate. Training is functional to the attainment of professional knowledge and skill and not an end in itself. In addition, the wording in this sentence is inconsistent with the wording in extant section 130 *Professional Competence and Due Care*. We recommend that the wording be changed to “...the application of professional knowledge, skill and experience...”

Although not requested by the Exposure Draft, we would also like to express our views regarding the applicability of professional skepticism to other activities of professional accountants both in public practice as well as in business.

We believe that the same principles underlying professional skepticism – integrity, objectivity, professional competence, and due care – should be applicable to professional accountants when providing non-assurance services. However, applying the term “professional skepticism” to all professional services in our view could be misleading. Although the underlying principles of professional skepticism are required for a professional accountant to maintain objectivity when providing many professional services, the application of these principles when providing assurance services is different. The verification of assertions made by management and data provided by others is the primary objective of the assurance services and hence maintaining professional skepticism is critical to providing these services effectively. The verification of assertions and data in connection with non-assurance services is not the primary objective, rather it is functional to providing advice or other support to the client. We believe that the term “critical mind-set,” rather than professional skepticism, more appropriately captures the approach that the professional accountant should have in providing other professional services.

With respect to professional accountants in business we agree that there is an imperative in ensuring the accuracy of financial information prepared by the professional accountant. As such, while we believe that “critical mind-set” is more appropriate, we can understand that professional skepticism may be viewed as more appropriate.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Robert Franchini, Partner, Global Independence (Robert.Franchini@it.ey.com).

Yours sincerely,

Ernst + Young Global Limited

ATTACHMENT

We propose the following changes to section 120.13 A1 *Professional Skepticism*:

“Auditing, review and other assurance standards, including those issued by the International Auditing and Assurance Standards Board (IAASB), require professional accountants in public practice to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Compliance with the fundamental principles supports the exercise of such professional skepticism. For example, in an audit of financial statements, this is illustrated in the following examples:

- *Integrity* requires the professional accountant to be straightforward and honest. ~~Therefore, integrity supports the exercise of professional skepticism when the accountant is aware of or suspects that a position advanced by a client could result in financial statements being materially false or misleading.~~ Being straightforward ~~by when~~ raising concerns, pursuing inquiries or seeking further evidence before reaching a conclusion about a matter of concern is consistent with a questioning mind and the critical assessment of audit evidence involved in exercising professional skepticism. Therefore, integrity supports the exercise of professional skepticism when the accountant suspects that a position advanced by a client could result in financial statements being materially false or misleading.
- *Objectivity* requires the professional accountant to recognize that previous involvement with a client, among other things, might give rise to a risk of bias by the accountant. Self-awareness of the accountant’s own bias when considering evidence relating to a matter material to the audit of the client’s financial statements and taking additional steps to evaluate relevant evidence to address such risks of bias are actions consistent with exercising professional skepticism.
- *Professional competence and due care* requires the professional accountant to have the appropriate level of professional knowledge and skill required for a particular engagement, and to act diligently in accordance with applicable standards, laws and regulations. These attributes enable the accountant to identify risks of misstatement that are relevant to a particular client’s financial statements and to exercise professional skepticism ~~by diligently pursuing when obtaining audit evidence~~ and then critically assessing whether the audit evidence is sufficient and appropriate in the circumstances.