

26 May 2017

Mr Ken Siong,  
Technical Director,  
International Ethics Standards Board for Accountants,  
529 Fifth Avenue, 6<sup>th</sup> Floor,  
New York,  
NY 10017,  
USA.

Dear Mr Siong

***Exposure Draft Proposed Application Material Relating to Professional Skepticism and Professional Judgment***

Crowe Horwath International is delighted to present a comment letter on the Exposure Draft *Proposed Application Material Relating to Professional Skepticism and Professional Judgment*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 129 countries.

We welcome IESBA's proposal to add application material to the Code of Ethics relating to professional scepticism and professional judgment. These proposals have been seen in the context of the current collaboration between Standard Setting Bodies on the subject of professional scepticism.

The application of professional scepticism is vital to the meeting of public interest expectations set by stakeholders and to the wider trust and confidence in the accountancy and audit professions. Professional scepticism can be difficult to explain and describe. The examples presented in proposed paragraph 120.13 A1 come across as discussions about attributes and behaviours. We encourage IESBA to work with other bodies such as IAASB to develop further these commentaries, as they need to be supported by mini cases, perhaps cross-referenced to the standards. For example, a mini case could illustrate the threats to professional scepticism arising from long association and how safeguards can mitigate these threats.

In due course, there is scope to supplement the application material in proposed paragraph 120.5 A1 with further commentaries about the exercise of professional judgment. These could be developed jointly with other bodies such as IAASB.

We address the specific matters detailed in the IESBA's request for comments in the appendix to this letter.

We trust that our comments assist the IESBA in this project. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty". The signature is written in a cursive style with a large initial "D" and a long, sweeping tail.

David Chitty  
International Accounting and Audit Director

**Appendix – Response to Request for Specific Comments *Proposed Application Material Relating to Professional Skepticism and Professional Judgment***

<b>Question</b>	<b>Response</b>
<i>Proposed Application Material Relating to Professional Skepticism (paragraph 120.13 A1)</i>	
Do respondents agree that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code?	We agree that the proposed application material enhances the understandability of the conceptual framework in Section 120.
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?	<p>It is right that the examples draw attention to compliance with the fundamental principles.</p> <p>We read the “examples” as more being discussions about attributes and behaviour. The proposed application material would be further enhanced by the addition of “examples” in the form of mini cases, perhaps cross referenced to other parts of the code (for example, the application of safeguards to mitigate the risks arising from long association).</p> <p>The discussion about “bias” under the “objectivity” heading also ought to make reference to “unconscious bias”. It is important to draw attention to “unconscious bias”, as this attitude arising from environmental factors is a threat to objectivity.</p>
<i>Proposed Application Material Relating to Professional Judgment (paragraph 120.5 A1)</i>	
Do respondents agree that the proposed application material enhances the understandability of the conceptual framework in Section 120 of the proposed restructured Code?	We agree that the proposed application material enhances the understandability of the conceptual framework in Section 120.
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	<p>The proposed application material is clear and emphasises the importance of understanding facts and circumstances when exercising professional judgment.</p> <p>In due course, there is scope to supplement the application material with</p>

exercising professional judgment in applying the conceptual framework? If not, why not?	further commentaries about the exercise of professional judgment.
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