

July 24, 2017

Mr. Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, NY 10017 USA

Dear Mr. Siong:

**Re: May 2017 Exposure Draft, *Proposed Application Material Relating to Professional Skepticism and Professional Judgment***

I am writing on behalf of the Public Trust Committee (PTC) of the Chartered Professional Accountants of Canada (CPA Canada) in response to your request to comment on the Exposure Draft entitled *Proposed Application Material Relating to Professional Skepticism and Professional Judgment* (“*the Exposure Draft*”).

CPA Canada is the national body of Canada’s accounting profession, with more than 200,000 members both at home and abroad. The Canadian CPA designation was created with the unification of three legacy accounting designations (CA, CGA, and CMA).

CPA Canada conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally. The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goals include achieving consistency between the provincial CPA bodies in Canada and ensuring that the processes and standards in Canada meet or exceed the international standards.

Thank you for the opportunity to provide our comments on this Exposure Draft. We noted through our profession’s consultation, the considerable expectations and cumulative difficulty in consuming and responding to several exposure drafts and related documents in the recent months. Having said this, we also recognize the workload involved in IESBA’s estimated timetable to finalize a newly restructured Code for adoption in 2019. Respectfully, however, we suggest that extending longer comment periods would enhance the ability of accounting bodies to conduct meaningful consultations with stakeholders, increase efficiency and enable more thorough responses.

Generally, at this time, we are not supportive of the proposals as presented in the Exposure Draft. Through our consultation efforts, although some support was received for the proposals, the majority identified notable observations including the lack of material concerning professional skepticism applicable to all professional accountants; an overall view that the proposed material does not enhance the understandability of the conceptual framework or usability of the Code by professional accountants; and concerns that the proposed material may result in some potential negative consequences that should be considered further. Overall, as explained below, we believe the Exposure Draft proposes material that could be improved in the larger context of the Code and should be re-considered.

We recognize and understand the desire of stakeholders of the accounting profession to emphasize the important concept of professional skepticism. However, considering the inclusion of professional skepticism application material in the Code that is only, at this time, applicable to Professional Accountants in Public Practice (PAPPs) who perform audit, review and other assurance engagements is premature and potentially dilutes the relevance of professional skepticism for the PAPPs who perform other professional services and Professional Accountants in Business (PAIBs). In Canada, to provide context for our comments, the vast majority of professional accountants are not employed in nor are they owners of organizations that are providing audit, review and other assurance services. Consequently, we believe that the Code would be enhanced and made more relevant if it contained professional skepticism material applicable to all professional accountants.

To adequately address professional skepticism, we believe that application material must also be introduced for PAIBs as they prepare and develop the information that routinely becomes the subject of an audit or other accounting service delivered by a PAPP. Simply put, accounting and audit quality depends upon a critical linkage where both PAIBs and PAPPs diligently exercise professional skepticism in carrying out their respective roles. Consequently, with respect, we recommend that the exposed material not be added to the restructured Code at this time and that the work required be completed in respect of professional skepticism as it relates to PAIBs and PAPPs who provide other professional services. This will allow for a cohesive and complete approach to applicable and relevant professional skepticism guidance for all professional accountants.

Similarly, we also recognize the desire of stakeholders of the accounting profession to emphasize the importance of assessing, with sufficient rigor, information underpinning ethical decisions. However, we believe this is already implicit in the Code and that the proposed material will not significantly enhance the understandability or usability of the Code by professional accountants. Noting that professional skepticism and professional judgment are inextricably linked, we respectfully suggest that the proposed application material should be re-considered in light of our comments above and those below in answer to the specific and general matters requested for feedback.

Please find below our responses to the requested matters for input from Respondents as outlined in the Explanatory Memorandum's Guide for Respondents.

***Request for 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?*

Overall, we do not agree that the proposed application material regarding exercising professional skepticism enhances the understandability of the conceptual framework. We believe that the conceptual framework is/will be understandable for its intended audience of professional accountants without the addition of this information.

Having said the above, if desired, we believe that the addition of application material concerning professional skepticism should occur when further determinations have been made and guidance developed regarding its relevance to all professional accountants. To proceed with the exposed material, we believe there could be a negative potential consequence whereby the importance and relevance of exercising professional skepticism by PAPPs who provide other professional services and PAIBs is diluted.

In considering the material as exposed, we received feedback that the proposed location of the material seemed out of context as it was applicable only to PAPPs providing audit, review and other assurance engagements. Suggestions were received that the proposed material should be located in the audit and assurance standards or be included in Part 3 of the Code which would be better anticipated by and helpful to PAPPs providing audit, review and other assurance engagements. Locating the information in Section 120 concerning the conceptual framework was, however, suggested as reasonable if material was developed that was applicable to all professional accountants.

When considering the Exposure Draft, we received feedback that professional skepticism and the fundamental principles are inter-related such that compliance with the fundamental principles supports the exercise of professional skepticism and that exercising professional skepticism allows for compliance with the fundamental principles. The exposed material does not recognize this circular relationship and posits only a singular flow of direction and impact.

During our consultation process we also received feedback that the exposed material will not resolve the issue of professional accountants failing to exercise professional skepticism. Instead, the suggestion has been made that greater results may be achieved in the exercising of professional skepticism by professional accountants, in their work or practice, through emphasis being applied in other regulatory areas focusing upon mandatory continuing education programs, practice inspection programs in respect of public practices and appropriate disciplinary actions when professional accountants fail to comply with the obligations of professional competence and due care.

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?*

In addition to our overall observations noted above that the addition of application material concerning professional skepticism should occur when further determinations have been made and guidance developed regarding its relevance and importance to all professional accountants, we did not find that the examples were helpful. Specific feedback was received that exercising professional skepticism supports compliance with the fundamental principles to the point where compliance with the fundamental principles will likely be jeopardized if professional skepticism is not exercised. The examples were noted as only providing a singular direction of relationship between the fundamental principles and professional skepticism.

Further, the examples were found at risk of appearing to similarly position what the fundamental principles entail without fully doing so and that this may potentially narrow their interpretation affecting the understandability and usability of the Code. Rather than risk restating or stating the principles differently, the clear preference expressed was for cross-references only to be made to the particular descriptions of the fundamental principles.

In considering the proposed material regarding Integrity, there was a preference expressed for the use of “forthright” in place of “straightforward,” which may be misinterpreted as uncomplicated, simple or easy. Forthright was considered to provide better meaning and a more appropriate interpretation.

It was also noted that guidance should be provided for assurance engagements other than audits. The application of professional skepticism in the context of audits is thought to be more intuitive and there is existing support in the context of audit standards. In contrast, it is believed that there are likely gaps in respect of the application of professional skepticism in the context of other types of assurance engagements which may not be adequately supported by guidance created in respect of assurance standards.

***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?*

Overall, we do not agree that the proposed application material regarding exercising professional judgment enhances the understandability of the conceptual framework. Further, we believe that the conceptual framework is/will be understandable for its intended audience of professional accountants without this information. We did appreciate, however, that the exposed material

includes a scope applicable to professional activities and therefore has relevance to all professional accountants.

In reviewing the material exposed, we noted that the bulleted list of matters that may be considered by a professional accountant in obtaining an understanding were examples of *any* professional accountant applying professional skepticism and exercising professional judgment. Noting our concerns above regarding the professional skepticism material exposed applicable only to PAPPs performing audit, review and other assurance services, we thought the bulleted list could be a useful foundation for the further work needed to have materials developed with application to all professional accountants regarding professional skepticism and professional judgment which are inextricably linked.

In addition, as observed in our response to the Safeguards ED-2, we noted the importance of documentation to support compliance with the principles and requirements. In particular, we suggested that requirements for documentation of the critical path followed by the professional accountant in his/her assessment of threats, use of professional judgment and implementation of effective safeguards may enable greater compliance with and enforceability of the Code. We respectfully recommend that IESBA should further consider whether documentation, sufficient to arrive at the professional judgment made by the professional accountant, should be a requirement of the Code. If professional accountants are required to document how they exercise their professional judgment in a given situation, they may deepen their thought process and will demonstrate due diligence undertaken.

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 do not agree that the proposed application material appropriately emphasizes the importance of obtaining a sufficient understanding of the facts and circumstances when exercising professional judgment in applying the conceptual framework. On the one hand, we suggest that the material proposed was trying to explain what is obvious: the importance of a sufficient understanding of the facts and circumstances in exercising professional judgment. On the other hand, we believe the professional accountant should obtain a sufficient understanding about both what is known and should have been known by the professional accountant. In making this observation, we note that Canada has had "known or should have known" in its requirements and guidance for many years.

In considering the material exposed, we noted that the third bullet may be improved by replacing "could be drawn" with "should be considered" to provide some greater clarity of intended scope.

As noted above, we do not believe the understandability of the conceptual framework or usability of the Code will be enhanced by explicitly stating, in this instance, what was already implicit in order to exercise professional judgment. Further, we suggest that the implications of explicitly stating all that is implicit may result in a long, cumbersome Code that would diminish the importance of understanding and applying the fundamental principles.

### ***Request for General Comments***

As noted above, we do not believe that the proposed material contained in the Exposure Draft will result in an improvement in understandability of the conceptual framework by professional accountants or of the overall Code for use by the accounting profession. We offer general comments, as requested, in regards to the following:

#### *Small and Medium Practices (SMPs)*

We have commented in past submissions that SMPs may find the overall size and complexity of the Code a concern. Having professional skepticism material that applies to all professional accountants and every engagement would be a simpler, more streamlined approach and may be preferred for that reason by SMPs.

In addition, it has been noted previously that SMPs appreciate examples that are relevant to them. As noted above, examples in respect of the application of professional skepticism in the context of other types of assurance engagements, beyond audits only, are recommended. We believe such examples will be of benefit and helpful to SMPs.

#### *Regulators and Audit Oversight Bodies*

As the proposed material is guidance only, there is no way to measure or assess in terms of enforceability or potential issues with respect to compliance.

As noted above, we suggest that requirements for documentation of the critical path followed by the professional accountant in his/her assessment of threats, use of professional judgment and implementation of effective safeguards may enable greater compliance with and enforceability of the Code.

#### *Developing Nations*

We believe that having relevant and appropriate information concerning professional skepticism and professional judgment available for both PAIBs and PAPPs would serve developing nations well.

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We thank you for the opportunity to comment on this Exposure Draft and look forward to future developments from the tripartite Professional Skepticism Working Group. We appreciate that further revisions to these proposals may result through the feedback provided by stakeholders.

Yours truly,

A handwritten signature in black ink, appearing to read 'B. Friedrich'.

Brian Friedrich, FCPA, FCGA  
Chair, Exposure Draft Working Group – Public Trust Committee  
CPA Canada