

Ken Siong
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13 June 2017

Dear Mr Siong,

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

The Financial Reporting Council (FRC) welcomes the opportunity to comment on this exposure draft of proposed application material relating to professional scepticism and professional judgment.

The application of professional scepticism and professional judgment, particularly by professional accountants providing audit and other assurance services, is very important. We agree with IESBA that this includes in relation to ethical considerations and compliance with the fundamental principles set out in the Code. We support the addition of application material that helps emphasise this.

The proposed application material on professional scepticism is relatively limited in its aim, although we acknowledge that the IESBA is only addressing the recommendation of the tripartite Professional Scepticism Working Group. We encourage IESBA to continue working with the IAASB, IAESB and other stakeholders to consider how the exercise of professional scepticism can be further enhanced. However, in doing this it is important that IESBA focus on ethical considerations rather than procedural requirements that are arguably better addressed in audit and other assurance standards.

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?*

The conceptual framework is intended to set out an approach to identifying, evaluating and addressing threats to the fundamental principles. The proposed application material helps understand how compliance with the fundamental principles supports the exercise of professional scepticism, which is referred to in paragraphs 120.12 A1.

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?

The proposed application material helps understand how compliance with the fundamental principles supports the exercise of professional scepticism.

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?*

The proposed application material helps understand what is meant by 'professional judgment' as referred to in paragraph R120.5 (a) when applying the conceptual framework.

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 emphasises 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.

We suggest that the description of what professional judgment involves could be expanded to be more closely aligned with that in the ISAs - "the application of relevant training, knowledge and experience, taking into account the nature and scope of the professional activity being undertaken, in making informed decisions about the courses of action that are appropriate in the circumstances."

If you have any questions on our response, or wish to discuss any of our observations in more detail please contact Mark Babington, Deputy Director of Audit Policy on m.babington@frc.org.uk or +44-20-7492-2323.

Yours sincerely,



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