

July 24, 2017

Mr. Stavros Thomadakis  
Chairman  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, NY 10017

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

Dear Stavros,

The International Federation of Accountants (IFAC) Professional Accountants in Business (PAIB) Committee values the opportunity to comment on the IESBA Exposure Draft proposing application material on professional skepticism and professional judgment. This response reflects the views of the PAIB Committee and those professional accountants who provide business information for internal and external purposes.

We recognize that there is a need to strengthen the concept of professional skepticism in the *Code of Ethics for Professional Accountants* based on clarifying how the fundamental principles support the exercise of professional skepticism in the audit and assurance context. However, we believe that the concept of professional skepticism, as well as professional judgement, should be applied by all professional accountants regardless of where they are employed given their professional status and influence in the financial reporting supply chain.

The purpose of the Code is to protect the public and build trust in the profession. The Code, therefore, appropriately applies to all professional accountants, not just those in one area of practice. The risk of the proposed approach set out in the Exposure Draft, which is based on the definition of professional skepticism in auditing and assurance standards, is that it could undermine the perceived professionalism, and application of professional skepticism, by all professional accountants. Instead, we believe professional skepticism is a fundamental characteristic applied in the work of all professional accountants including professional accountants in business.

The PAIB Committee would welcome an overarching description and understanding of professional skepticism within the Code that is relevant in the context of the ethical responsibilities, and the fundamental principles, of all professional accountants. This could make for a stronger conceptual starting point and allow scalability of the concept for use in the different contexts in which professional accountants work. We believe, much like how the Code handled the issue of non-compliance with laws and regulations (NOCLAR), there is a distinction to be made between how professional skepticism is relevant to the assurance practitioner, a professional accountant providing consulting or tax services, and



a professional accountant in business. For example, the level of documentation may be less onerous for those not providing assurance services.

The application of professional skepticism in professional accountant in business roles can be seen in a financial reporting context, or more broadly. In terms of financial statement reporting, the application of professional skepticism by professional accountants in business protects the public, and is an important part of enhancing financial statement quality. Professional skepticism is important in relation to:

- assertions in financial information about measurement, presentation, and disclosure;
- identifying error or fraud, and
- as a component of an organization's internal control structure.

One option in a financial reporting context is to broaden the definition of professional skepticism in International Standard on Auditing (ISA) 200 to apply to professional accountants in business in the financial reporting supply chain. A modified definition could be:

“An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement in an organization's financial information or data due to error or fraud, and a critical assessment of existing evidence.”

Professional skepticism is also important to professional accountants in business working in roles beyond financial reporting carrying out a range of activities, including:

- forecasts, estimates, and projections and the assumptions upon which they are based being transparent and credible; and
- providing robust business case information supporting decisions and capital allocation.

In these activities, misstatements and errors can potentially have as great or an even greater impact on a company's share price than an error in their financial statements.

### *Scalability*

The perception of any changes to the Code should not be to imply that professional accountants outside public practice do not apply professional skepticism, but rather the way professional skepticism is relevant to different roles varies.

Scalability in terms of how professional skepticism manifests itself in relation to the work of different types of professional accountants is an important consideration. An overarching articulation of professional skepticism can be supported by specific terms to identify different forms and aspects of professional skepticism. For example, professional skepticism in the audit and assurance context could be referred to as “assurance skepticism” or “audit skepticism.” A specific reference to "assurance skepticism" would clearly differentiate the nature of professional skepticism in this context from other forms of professional skepticism, which might be developed as part of a longer term project by the IESBA.



### *Independence*

The proposed approach links professional skepticism specifically to independence by including both items in the same subsection of the Code. This is very limiting given that a) professional skepticism is connected to other principles, such as objectivity and professional competence, and b) a link to independence could prohibit the application of professional skepticism to other accountants. Currently, independence is not relevant to professional accountants in business or other services provided by professional accountants.

Therefore, we recommend that if a more holistic approach is not considered, then at a minimum the guidance be placed together with the principle on independence in Part C of the restructured Code. Both the definition of professional skepticism in ISA 200 and independence are concepts deployed only by those in public practice.

### *Suggestions in Relation to the Application Guidance*

When discussing obtaining an understanding of the facts and circumstances to identify, evaluate, and address threats to compliance, the guidance states that one consideration should be "other reasonable conclusions could be drawn from the information being considered." This could be interpreted as being too restrictive because often in accounting there are allowable alternatives, and resultant documentation will address why one alternative was chosen over another. The wording could imply that if there are other reasonable conclusions then there could be a problem with how professional skepticism is applied. An alternative might be to refer to other reasonable conclusions not considered or not adequately evaluated (rather than state that they exist).

If you require additional clarification, or would like to discuss any of the issues raised above, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Charles Tilley". The signature is written in a cursive, flowing style.

Charles Tilley  
Chair  
IFAC Professional Accountants in Business Committee