

Professional Skepticism and Professional Judgment–Proposed Texts (Mark-up from ED)

A. Proposed New Application Material to Explain How Compliance with the Fundamental Principles Supports the Exercise of Professional Skepticism

Part 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND THE CONCEPTUAL FRAMEWORK

Section 120

The Conceptual Framework

...

Requirements and Application Material

...

Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.12 A1 Professional accountants in public practice are required to ...

120.12 A2 Parts 4A and 4B of the Code comprise the *International Independence* ...

Professional Skepticism

120.13 A1 Under aAuditing, review and other assurance standards, including those issued by the International Auditing and Assurance Standards Board (IAASB), require professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Complying iance with the fundamental principles supports the exercise of such professional skepticism. ~~For example,~~ in an audit of financial statements, this is illustrated as is explained in the following examples:

- Integrity requires the professional accountant to be straightforward and honest. ~~Therefore, The accountant complies with the principle of integrity by: 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~~

(a) Adopting a straightforward and honest approach when raising concerns; about a position advanced by a client; and

(b) ~~p~~Pursuing inquiries about a matter of concern ~~or and~~ seeking further evidence before in order to reaching a conclusion about it a matter of concern

In doing so, the accountant complies with the principle of integrity and demonstrates is consistent with a questioning mind and undertakes the critical assessment of audit evidence that is required involved in when

exercising professional skepticism.

- Objectivity requires the professional accountant not to compromise professional or business judgment because of bias, conflict of interest or the undue influence of others. The accountant complies with the principle of objectivity by:

(a) Recognizing circumstances where that bias might arise from, among other circumstances, the accountant's familiarity previous involvement with a the client; and, among other things, might give rise to a risk of bias by the accountant. Self-awareness of the accountant's own bias when

(b) Considering the impact of such bias when evaluating the sufficiency and appropriateness of audit evidence relating to a matter-material matter in to the audit of the client's financial statements. and taking additional steps

In doing so, the accountant complies with the principle of objectivity, and demonstrates behavior that is 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 at the level required to ensure competent professional service, for a particular engagement, and to act diligently in accordance with applicable standards, laws and regulations. The accountant complies with the principle of professional competence and due care by:

(a) These attributes enable the accountant to Having and applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of misstatement, that are relevant to a particular client's financial statements and to exercise professional skepticism by diligently pursuing and then

(b) Developing and performing appropriate audit procedures; and

(c) Applying such relevant knowledge in critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant complies with the principle of professional competence and due care and demonstrates behavior consistent with the exercise of professional skepticism.

B. Proposed New Application Material to Emphasize the Importance of Understanding Facts and Circumstances in Relation to Exercising Professional Judgment

Part 1 – Complying with the Code, Fundamental Principles and the Conceptual Framework

...

Section 120

The Conceptual Framework

...

Requirements and Application Material

...

R120.5 When applying the conceptual framework, the professional accountant shall:

- (a) Exercise professional judgment;
- (b) Remain alert for new information and to changes in facts and circumstances; and
- (c) Use the reasonable and informed third party test as described in paragraph 120.6 A1.

Exercise of Professional Judgment

120.5 A1 Applying the conceptual framework to comply with the fundamental principles involves the exercise of professional judgment. Professional judgment in turn involves the application of ~~training, professional~~ knowledge, ~~skill~~ and experience, commensurate to taking into account the nature and scope of the professional activity being undertaken, so that actions taken and decisions made by the accountant are appropriate to the circumstances.

120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. ~~When exercising professional judgment it is important that the professional accountant-Determining the actions necessary to gain this obtains a sufficient~~ understanding and coming to a conclusion about whether the fundamental principles have been complied with requires the exercise of professional judgment. ~~of the facts and circumstances known to the accountant to identify, evaluate and address threats to compliance with the fundamental principles.~~ In obtaining this understanding, the accountant might consider, among other matters, whether:

- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- The information provides a reasonable basis on which to reach a conclusion.

- ~~There might be O~~ther reasonable conclusions that could be ~~drawn-reached~~ from the available information ~~being-considered~~.
- The accountant's own preconception or bias might be affecting the accountant's judgment.
- The accountant's ~~own~~-expertise and experience are sufficient, or whether there is a need to consult with others with relevant expertise or experience.

Reasonable and Informed Third Party

120.5 ~~A32~~A1 The reasonable and informed third party