Professional Skepticism and Professional Judgment—Proposed Texts
(Mark-up from September 2017 IESBA Discussion)

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 auditing, review and other assurance standards, including those issued by the International Auditing and Assurance Standards Board (IAASB), professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements.

Professional skepticism and the fundamental principles are inter-related concepts, as complying with the fundamental principles supports the exercise of such professional skepticism.

120.13 A2 The way compliance with the fundamental principles, individually and collectively, supports professional skepticism is illustrated in an audit of financial statements, for example, is shown as is explained in the following examples illustrations:

- **Integrity** requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:

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

  (b) Pursuing inquiries about **inconsistent information a matter of concern** and seeking further evidence in order to **make informed decisions about the course of action that is appropriate in the circumstances reach a conclusion about it.**
In doing so, the accountant complies with the principle of integrity and demonstrates a questioning mind and undertakes the critical assessment of audit evidence that is consistent with the required when exercising of 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. For example, the accountant complies with the principle of objectivity by:
  
  (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant’s professional or business judgment where bias might arise from, among other circumstances, the accountant’s familiarity with the client; and
  
  (b) Considering the impact of any such circumstances and relationships on the accountant’s judgment where bias might arise from, among other circumstances, the accountant’s familiarity with the client; and

In doing so, the accountant complies with the principle of objectivity and demonstrates behavior that is consistent with the exercising of professional skepticism.

- **Professional competence and due care** requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:
  
  (a) Having and applying knowledge that is relevant to a particular client’s industry and business activities in order to properly identify risks of misstatement.
  
  (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 that is 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 relevant training, professional knowledge, skill and experience, commensurate to the nature and scope of the professional activity being undertaken, so that the exercise of professional judgment is required when the professional accountant is applying the conceptual framework in order to make informed actions taken and decisions about the courses of actions available, and to determine whether such decisions made by the accountant are appropriate in the circumstances.

120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to gain this understanding and coming to a conclusion about whether the fundamental principles have been complied with requires the exercise of professional judgment.

120.5 A3 In obtaining this understanding, the professional accountant might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and

Commented [DJ1]: The bullets in this paragraph have been re-ordered to enhance its flow.
the accountant’s expectations.

• The accountant’s expertise and experience are sufficient to reach a conclusion, or whether there is a need to consult with others with relevant expertise or experience.

• The information provides a reasonable basis on which to reach a conclusion.

• The accountant’s own preconception or bias might be affecting the accountant’s exercise of professional judgment.

• There might be other reasonable conclusions that could be reached from the available information.

Reasonable and Informed Third Party

120.5 The reasonable and informed third party ....