

International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue - 6th Floor
New York, New York
10017

25 July 2017

Dear Sirs

Exposure Draft May 2017 – Proposed Application Material relating to Professional Skepticism - Linkage with the Fundamental Principles and Professional Judgment – Emphasis on Understanding Facts and Circumstances

PKF International Limited administers the PKF network of legally independent member firms. The PKF International network consists of member firms and correspondents in over 400 offices operating in 150 countries providing assurance, accounting and business advisory services. PKF International Limited is a member of the Forum of Firms - an organisation dedicated to consistent and high-quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.

We welcome the opportunity to comment on the IESBA's exposure draft – Proposed Application Material relating to Professional Skepticism - Linkage with the Fundamental Principles and Professional Judgment – Emphasis on Understanding Facts and Circumstances. Our responses are appended to this letter in terms of the requests for specific comments via questions provided by the IESBA.

Of importance, while we acknowledge the need to provide clarity on the concepts of professional skepticism and professional judgment to professionals performing audits and other assurance engagements as a short-term endeavor, as well as the need for further research and coordination with the IAASB and IAESB, we urge the IESBA not to delay addressing the applicability of these concepts to professional accountants' other than those who perform audit and other assurance services especially in light of the new NOCLAR provisions.

We believe that the proposed amendments enhance the usability of the Code and are supportive of the IESBA's response and continued efforts to improve the application material of the Code of Ethics for Professional Accountants™ (the Code).

If you would like to discuss any of our comments, do not hesitate to contact me.

Yours sincerely



Theo Vermaak

Chairman: International Professional Standards Committee
PKF International Limited

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?

We note that the stated intention of the proposed application material was to describe how compliance with the fundamental principles in the Code supports the exercise of professional skepticism in the context of an audit and other assurance engagements, rather than enhancing the understandability of the conceptual framework.

In this regard, the proposed application material does enhance the clarity of the term “professional skepticism” and the linkage with the fundamental principles. It also provides supportive guidance that compliance with the fundamental principles assist the professional accountant in public practice to exercise professional skepticism.

- 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?

We support the IESBA in highlighting the relevant fundamental principles and providing examples, even though the examples are narrowed to focus on the audit of financial statements. As a longer-term initiative, these could be extended to cover reviews and other assurance engagements.

Integrity:

The examples provided describe how compliance with this principle supports professional skepticism.

Objectivity:

The example does not articulate how compliance with objectivity supports the exercise of professional skepticism as clearly as the examples used under the other fundamental principles. The linkage provided in the draft text that “... additional steps to evaluate relevant evidence...are consistent with exercising professional skepticism” is not very clear or specific. Such additional steps may take many forms and may not in fact explicitly link to the exercise of professional skepticism. A reference to safeguards that would be applicable when addressing a familiarity threat may illustrate practical application of such additional steps more clearly.

Further, proposed par. 120.5 A1 refers to preconception or bias, while this proposed par. 120.13 A1 refers to bias only. We recommend that terminology be used consistently, unless there is a clear reason for the distinction.

Professional competence and due care

The examples provided describe how compliance with this principle supports professional skepticism.

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?

We note that the intention of the proposed application material was to emphasise 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, rather than enhancing the understandability of the conceptual framework.

The proposed application material does emphasise the importance of obtaining a sufficient understanding of the facts and circumstances (in fact this is explicitly stated in proposed par. 120.5 A1. See also our response to question 4.

- 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?

Yes (see response to question 3).

The stated objectives and text in par. R120.5 refers to “when applying the **conceptual framework**”. The draft text in proposed par. 120.5 A1 then refers more specifically and narrowly to “identify, evaluate and address **threats** to compliance with the **fundamental principles**.” While we understand that this is essentially an explanation of what the conceptual framework requires, we are not clear why different conventions are used. We propose that the second sentence be re-written as follows:

“When exercising professional judgment in applying the conceptual framework, it is important that the professional accountant obtains a sufficient understanding of the facts and circumstances known to the accountant.”

We support the use of practical examples to provide further guidance. The matters that are listed to assist the professional accountant in obtaining the understanding of facts and circumstances are certainly useful, but in our view are more applicable to the exercise of professional skepticism and/or illustrate how threats to compliance may be identified, rather than being matters that will assist in obtaining the required level of understanding.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- (a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMPs.
- (b) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
- (c) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

- (d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

Small and Medium Practices (SMPs)

We believe that the proposals in the exposure draft, subject to our comments above, will aid small and medium practices (SMPs) in understanding and applying the concepts of professional skepticism and professional judgment.

Translations

Clarity, consistency of terms and logical structuring significantly enhance the ability for accurate translation, and subject to our comments above, we support the changes in the exposure draft and believe these will assist in this regard.

Glossary of terms

IESBA	International Ethics Standards Board for Accountants
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
NOCLAR	Non-Compliance with Laws and Regulations
SMPs	Small and Medium Practices