



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York 10017

July 21, 2017

Re: IESBA Exposure Draft – Proposed Application Material – Professional Scepticism and Professional Judgement

Dear Mr Siong

Introduction

We¹ appreciate the opportunity to comment on the IESBA's Exposure Draft.

Principal comments

We continue to support the work that the IESBA is doing in relation to the Code and believe that the proposed additions will, subject to our comments herein, provide useful guidance to professional accountants.

Professional scepticism and professional judgment underscore high quality auditing and, indeed, are attributes that are expected of professional accountants more broadly.

We strongly support the creation of the tripartite Professional Scepticism Working Group (IESBA, IAASB and IAESB) because we believe it is vitally important that the concepts are defined and

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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applied in a consistent and coordinated way in the Code, the education standards and the ISAs and other IAASB standards.

Our detailed comments on the proposed language are set out below which we hope the Board will find useful in finalising the text.

Proposed Application Material Relating to Professional Skepticism (paragraph 120.13 A1) - Questions 1 and 2

Today, professional scepticism is defined in the IAASB's International Standards and guidance on its meaning in the context of audit is provided in ISA 200. The exercise of professional scepticism is also brought to life – explicitly and implicitly – through the requirements and related application material in the IAASB standards.

We believe there is merit in bridging the fundamental principles in the IESBA Code and the application of the concept of professional scepticism in the ISAs and other IAASB standards. We also support doing that by including guidance in Part 1 of the Code on how the fundamental principles support the exercise of professional scepticism in the audit (and other assurance engagements).

With respect to professional scepticism in the audit, in our view it is vitally important that the concepts and guidance included in the Code and the IAASB standards be aligned. If the new application material proposed for the Code is capable of being interpreted as changing the definition of professional scepticism or its current interpretation, there would be a risk that the proposed IESBA guidance could result in confusion or inconsistent interpretations of existing ISA requirements and guidance if corresponding changes were not made in IAASB's standards at the same time.

If the intention is to “shift the dial” and change behaviour of the professional accountant performing audit or other assurance services, we believe the implications of the proposed changes in the Code for the auditing standards need to be debated and subject to the due process of both IAASB and IESBA. To enable stakeholders to make an informed decision, a joint Exposure Draft showing the proposed changes to both the Code and ISAs (and other IAASB standards) would be needed, in our view, to illustrate the revised or more explicit requirements and application guidance that would be needed as a result of the change in concept.

If IESBA's intention is, at this point, simply to create linkages between the fundamental principles and the concepts as applied in the IAASB's standards, we believe it is critical that there be alignment in wording used.

The proposed wording is not aligned and could, perhaps inadvertently, be interpreted as setting a different expectation than the definition and guidance in the ISAs.

For example, the proposed new guidance on objectivity introduces the idea that the accountant needs to “take additional steps to evaluate relevant evidence to address risks of bias”. For accountants performing audits, it is unclear what they are actually being asked to do. In an audit context, it could be seen to be asking auditors to seek evidence to confirm or dispel the possibility of the auditor's own bias. The ISA requirements themselves are designed to embed checks and balances that support the



auditor in achieving that aim (through, for example, supervision and review, the involvement of an engagement quality control review independent of the engagement team to challenge significant auditor judgments, etc). The proposed new guidance could, however, be interpreted to be asking more.

Similarly, in the proposed new guidance related to professional competence and due care, a concept of “diligently pursuing” audit evidence has been introduced – a concept not used in the ISAs discussion of professional scepticism nor in the requirements or application material.

To avoid potential misalignment and even conflicting guidance in the Code and IAASB standards, we recommend the following changes to the proposed wording:

*“Objectivity.....Self-awareness of the accountant’s own bias when considering evidence relating to a matter material to the audit of the client’s financial statements ~~and taking additional steps to evaluate relevant evidence to address such risks of bias are actions~~ **is** consistent with exercising professional scepticism.”*

*Professional competence and due care.....These attributes enable the accountant to identify risks of misstatement that are relevant to a particular client’s financial statements and to exercise professional scepticism ~~by diligently pursuing~~ **in designing and performing audit procedures**, and then critically assessing whether audit evidence is sufficient and appropriate to the circumstances.*

We support the tripartite Professional Scepticism Working Group continuing to consider whether further coordinated amendments to the Code and ISAs and other IAASB standards may be warranted. For now, however, for purposes of introducing linkages as part of the proposed restructured Code, we strongly recommend making sure that the wording of the guidance in the Code and in the ISAs and other IAASB standards is fully aligned.

Proposed Application Material Relating to Professional Judgment (paragraph 120.5 A1) – Questions 3 and 4.

In a similar vein, while we appreciate that the need to apply professional judgement applies more broadly to professional activities undertaken by all professional accountants, we believe that the description of professional judgement should be consistent with that used in the ISA. ISA 200 explains the application of “relevant training, knowledge and experience”, and further links the use of professional judgement to “making informed decisions about courses of action”. Similarly the ISA explains that the professional judgement expected of an individual is that it is exercised by an individual whose training, knowledge and experience have “assisted in developing the necessary competencies to achieve reasonable judgments”. These aspects are missing from the proposed text in 120.5 A1 and we believe it would be helpful to include.

We propose that the introductory sentence to 120.5 (“Professional judgment involves the application of training, knowledge and experience taking into account the nature and scope of the professional activity being undertaken”) might be revised as follows:



Professional judgment is exercised by a professional accountant whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgements. Professional judgement involves making informed decisions, taking into account the nature and scope of the professional activity being undertaken in the light of, and consistent with, the facts and circumstances that were known to the accountant.

The majority of the subsequent proposed text in 120.5 A1 in effect expands on material contained in paragraphs A25/26 of ISA 200, at the same time as creating a link to application of the fundamental principles. The principles at stake seem to be those mentioned in proposed 120.13 A1 (namely integrity, objectivity and professional competence and due care) but this is not overtly stated. We suggest that it may be helpful to the reader to make reference to those fundamental principles and perhaps add examples to bring the material to life.

This new material adds to the discussion of professional judgement in the ISA. There is a risk that those using the ISA in the context of an audit may miss this additional guidance and, accordingly, we recommend that the two Boards work closely together to align the relevant materials and/or provide suitable cross references.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact Diana Hillier (diana.hillier@pwc.com) or me, at jan.e.mccahey@uk.pwc.com.

Yours sincerely

A handwritten signature in black ink that reads 'Jan McCahey' in a cursive script.

Jan McCahey
Global Regulatory Leader