



IESBA Exposure Draft:
Proposed Application Material Relating to:
(a) Professional Skepticism - Linkage with the Fundamental Principles; and
(b) Professional Judgment – Emphasis on Understanding Facts and Circumstances

24 July 2017

INTRODUCTION

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognized and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS welcomes the opportunity to comment on the IESBA Exposure Draft: 'Proposed Application Material Relating to (a) Professional Skepticism – Linkage with the Fundamental Principles; and (b) Professional Judgment – Emphasis on Understanding Facts and Circumstances'.

The ICAS Ethics Board has considered the Exposure Draft and I am pleased to forward their comments.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

Key Points

- (1) We are supportive of IESBA's view at Paragraph 12 of the Explanatory Memorandum that further work is needed in the longer term to "elaborate on the relevance of professional skepticism to compliance with the fundamental principles". Specifically, we believe that consideration is required of whether the concept should be applicable to all professional accountants and not just those performing audit or other assurance engagements.
- (2) The proposed revisions to the Code in relation to professional scepticism adopt the approach that complying with the five fundamental principles helps an auditor to exercise professional scepticism. Whilst there is some merit in IESBA's proposed approach, conceptually we would prefer the adoption of an approach that applies the logic that applying professional scepticism helps a professional accountant to comply with the fundamental principles.
- (3) We believe that the proposed application material in relation to "Professional Judgement" does enhance the understandability of 'The Conceptual Framework' in Section 120 of the proposed restructured Code. However, we have some concerns that the substance of the reasonable and informed third party test as per paragraph 120.5 A2 i.e. "...all relevant facts and circumstances that the accountant knows or could reasonably be expected to know..." is wider in scope than what is reflected in the content of paragraph 120.5 A1 in terms of what is expected of the professional accountant. Paragraph 120.5 A1 refers only to "...the facts and circumstances known to the accountant". We appreciate that the subsequent bullet points in paragraph 120.5 A1 might be perceived by some to cover this apparent difference. However, we would prefer for the content of this paragraph to more clearly reflect the expectations expressed in paragraph 120.5 A2.

Responses to the Specific Questions

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?*

The proposed revisions to the Code adopt the approach that complying with the five fundamental principles helps an auditor to exercise professional scepticism. Whilst we believe there is some merit in this approach, from a conceptual view-point, we believe that it should preferably be the other way around and that applying professional scepticism helps a professional accountant to comply with the fundamental principles.

We appreciate the difficulties that IESBA has experienced in relation to this project and therefore are not opposed to what is being suggested. However, we remain of the view that professional scepticism is required of all professional accountants and not just those performing audit or other assurance engagements. The only solution to this may be to seek to create a new term which encompasses the elements of professional scepticism which it is believed are required of all professional accountants. We are therefore supportive of IESBA's view noted at Paragraph 12 of the Explanatory Memorandum:

“The IESBA is of the view that further work is needed in the longer term to elaborate on the relevance of professional skepticism to compliance with the fundamental principles. As further discussed in the Appendix to this explanatory memorandum, the IESBA has been considering whether and, if so, how the Code should address the applicability of the concept of professional skepticism to professional accountants other than professional accountants who perform audit and other assurance engagements.”

Also, following on from the ICAS “The Five Fundamental Ethics Principles: Time for Evaluation?” Discussion Paper, we believe that IESBA should give greater consideration as to what traits/characteristics it believes should be expected of professional accountants. Professional scepticism appears to fall into this category as does “moral courage”. We would advise that we have decided to insert text into the ICAS Code of Ethics to reflect that moral courage is an enabler which helps professional accountants to comply with the fundamental principles.

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?*

In relation to objectivity we believe that the bias assessment should potentially take place earlier in the process. Professional scepticism should be applied in thinking about what evidence is sought, rather than just in considering the evidence already available. The proposed approach by implication narrows the scope of the bias assessment. We appreciate that some may see this as potentially increasing the work effort and therefore it might be a matter for the IAASB's standards – e.g. ISA 500 'Audit Evidence'.

Whilst we would prefer that a different conceptual approach was adopted in relation to professional scepticism, we do believe that inserting content on professional scepticism and professional judgement does help to highlight the importance of these two concepts. On the latter, we would also like to draw your attention to the ICAS publication, “A Professional Judgement Framework for Financial Reporting”: <https://www.icas.com/technical-resources/a-professional-judgement-framework-for-financial-reporting>

We would also highlight our Ethical Decision-Making Framework: <https://www.icas.com/ethics/ethical-decision-making-framework>

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?*

Subject to our response to question 4 below, we believe that the proposed application material does enhance the understandability of 'The Conceptual Framework' in Section 120 of the proposed restructured Code.

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?*

Whilst we are supportive of the substance of the proposed content we have some concerns that the substance of the reasonable and informed third party test as per paragraph 120.5 A2 i.e. ".all relevant facts and circumstances that the accountant knows or could reasonably be expected to know.." is wider in scope than what is reflected in the content of paragraph 120.5 A1 in terms of what is expected of the professional accountant. Paragraph 120.5 A1 refers only to "...the facts and circumstances known to the accountant".

We appreciate that the subsequent bullet points in paragraph 120.5 A1 might be perceived by some to cover this apparent difference. However, we would prefer for the content of this paragraph to more clearly reflect the expectations expressed in paragraph 120.5 A2.

One also needs to take into consideration the incentives of the people who prepared the information, and the integrity of the organisation's leaders. Consideration of matters such as these should also have an influence over the judgements being made. Content to this effect could possibly be included as an additional bullet point in paragraph 120.5 A1.