

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

A. Professional Skepticism

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

Section 120

The Conceptual Framework

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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 ~~Auditing~~Under auditing, 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. ~~Compliance~~Professional skepticism and the fundamental principles are inter-related concepts, and compliance with the fundamental principles supports the exercise of such professional skepticism. For example, in

120.13 A2 In an audit of financial statements, this the way compliance with the fundamental principles, individually and collectively, supports professional skepticism is illustrated shown in the following examples:

- Integrity requires the professional accountant to be straightforward and honest. ~~Therefore, integrity supports the exercise of professional skepticism when~~For example, the accountant is aware of or suspects that a position advanced by a client could result in financial statements being materially false or misleading, complies with the principle of integrity by:

(a) Being straightforward and honest when raising concerns, pursuing about a position taken by a client; and

(b) Pursuing inquiries or about inconsistent information and seeking further evidence before reaching a conclusion about a matter of concern is consistent with a questioning mind and to address concerns about statements that might be materially false or

misleading in order to make informed decisions about the appropriate course of action in the circumstances.

In doing so, the accountant demonstrates the critical assessment of audit evidence ~~involved in exercising~~ that is consistent with the exercise of professional skepticism.

- *Objectivity* requires the professional accountant to ~~recognize that previous involvement with a client, among other things, might give rise to a risk not to~~ compromise professional or business judgment because of bias ~~by the accountant. Self-awareness, 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 ~~own bias when considering~~ professional or business judgment ; and

(b) Considering the impact of any such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence ~~relating~~ related 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 consistent with exercising.

In doing so, the accountant behaves in a manner that is consistent with the exercise of 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 for a particular engagement to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. ~~These attributes enable~~ For example, the accountant to identify risks of misstatement complies with the principle of professional competence and due care by:

(a) Applying knowledge that ~~are~~ is relevant to a particular client's financial statements and to exercise professional skepticism by diligently pursuing and then industry and business activities in order to properly identify risks of material misstatement.

(b) Designing and performing appropriate audit procedures; and

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

In doing so, the accountant behaves in a manner that is consistent with the exercise of professional skepticism.

B. Professional Judgment

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

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Section 120

The Conceptual Framework

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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 Professional judgment involves the application of relevant training, professional knowledge, skill and experience taking into account commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved.~~activity being undertaken. When exercising~~In relation to undertaking professional activities, the exercise of professional judgment ~~it is important that~~ is required when the professional accountant obtains a sufficient is applying the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

120.5 A2 An understanding of the known facts and circumstances known to the accountant to identify, evaluate and address threats to compliance with the is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also requires the exercise of professional judgment.

120.5 A3 ~~In obtaining~~exercising professional judgment to obtain 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 the accountant's expectations.
- ~~Other reasonable conclusions could be drawn from the information being~~

~~considered.~~

- The accountant's ~~own~~ 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 A4A1 The reasonable and informed third party