

Professional Skepticism – Proposed Text (Linkage) (Mark-up Version)

The proposals are shown in **gray** text and include revisions to the proposed restructured Code¹ to describe the linkage between the fundamental principles and professional skepticism in the context of audits, reviews and other assurance engagements. This mark-up illustrates revisions made since the March 15, 2017 IESBA meeting draft.

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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Requirements and Application Material

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Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.12 A1 Professional accountants in public practice are required to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional skepticism has been compromised.

120.12 A2 Parts 4A and 4B of the Code comprise the *International Independence Standards*. Parts 4A and 4B set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent, when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies

¹ In January 2017, the IESBA completed the first phase of its strategic project to restructure its Code of Ethics for Professional Accountants™ (the Code). For information, IESBA Staff has prepared a [compilation of the proposed restructured Code](#) that combines the [agreed-in-principle texts](#) for Phase 1 of the Structure and Safeguards projects and the proposed texts relating to the January 2017 Exposure Drafts (i.e., [Structure ED-2](#), [Safeguards ED-2](#), and [Applicability ED](#)).

in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence.

Professional Skepticism

120.13 A1 Auditing, review and other assurance standards, including those issued by the International Auditing and Assurance Standards Board (IAASB), require professional accountants in public practice to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. In an audit of financial statements, compliance with the fundamental principles supports the exercise of professional skepticism as illustrated in the following examples:

~~120.13 A2 Compliance with the fundamental principles reinforces a professional accountant's ability to exercise professional skepticism when performing audits, reviews or other assurance engagements. For example:~~

- Integrity requires the professional accountant to be straightforward and ~~honest~~ resist pressure to accept. Therefore, integrity supports the exercise of professional skepticism when the accountant is aware of or suspects that a position advanced by a client could result in its financial statements when the accountant is aware of or suspects that other being materially false or misleading information the position. Being straightforward ~~in when~~ raising concerns, pursuing inquiries or seeking further evidence before reaching a conclusion about a matter of concern demonstrates consistent with a questioning mind and the critical assessment of audit evidence involved in ~~applying~~ exercising professional skepticism.
- Objectivity requires the professional accountant to recognize that previous involvement with a client, among other things, might give rise to a risk of bias. ~~Applying a questioning mind to challenge by the accountant~~. Self-awareness of the accountant's own assumptions ~~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 ~~assist the accountant to exercise~~ are actions consistent with exercising professional skepticism.
- Professional competence and due care requires the professional accountant to have the appropriate level of professional knowledge and skill ~~appropriate~~ required for the a particular engagement, and to act diligently in accordance with applicable ~~technical and professional~~ standards, laws and ~~legislation~~ regulations. These attributes enable the accountant to identify risks of misstatement that are relevant to a particular client's financial statements and to exercise professional skepticism by diligently pursuing and then critically assessing whether audit evidence is sufficient and appropriate in the circumstances. Knowledge of the applicable regulations when auditing a regulated entity contributes to the accountant's ability to apply a questioning mind to the facts and circumstances relevant to the audit.

~~Professional behavior requires the professional accountant to avoid knowingly being involved in a professional activity that would impair the reputation of or discredit the profession. The reputation of the profession could be damaged if facts and~~

~~circumstances known to the accountant that have the potential to result in substantial losses to creditors and investors are not reported appropriately. The accountant therefore applies a questioning mind when pursuing inquiries and obtaining further evidence in order to be able to reach a conclusion.~~