

Professional Skepticism – Proposed Text (Linkage)

[Mark-up from [Agreed-in-Principle Text](#)]

Note to Meeting Participants

The proposals 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.

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 announced the completion of the major 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 standards, including those issued by the International Auditing and Assurance Board (IAASB), require professional accountants in public practice to plan and perform audits, reviews and other assurance engagements with professional skepticism.

120.13 A2 Compliance with the fundamental principles contributes to a professional accountant's ability to apply appropriate professional skepticism when performing audits, reviews or other assurance engagements as illustrated in the following examples:

- Complying with the fundamental principle of *integrity* requires the professional accountant to be straightforward and resist pressure to accept a position advanced by a client when the accountant has concerns that accepting the position could result in the accountant being associated with materially false or misleading information. Being straightforward in raising the concern and pursuing inquiries or seeking further evidence on which to base a conclusion on a matter of concern demonstrates a questioning mindset and the critical assessment of evidence expected in applying appropriate professional skepticism.
- Complying with the fundamental principle of *objectivity* requires the professional accountant to recognize that previous experience with a client might give rise to a risk of bias. Applying a questioning mindset to challenge the accountant's own assumptions and taking additional steps to evaluate relevant evidence to address such risk of bias assist the accountant apply appropriate professional skepticism.
- Complying with the fundamental principle of *professional competence and due care* requires the professional accountant to have a level of professional knowledge and skill appropriate for the engagement, and to act diligently and in accordance with applicable technical and professional standards. Appropriate knowledge and skill are necessary for the accountant to recognize the facts and circumstances that are relevant to the engagement as well as to properly assess evidence related to such facts and circumstances. A questioning mindset in carrying out these activities is required so that the accountant's conclusion on any particular matter is informed and appropriate in the circumstances.
- Complying with the fundamental principle of *confidentiality* requires the professional accountant to respect the confidentiality of information acquired during the course of providing the engagement. Respecting the confidentiality of information facilitates the free flow of information from clients or third parties to the accountant, and enhances the accountant's ability to pursue appropriate inquiries related to such information and seek the necessary evidence on which to base an informed conclusion on any particular matter.
- Complying with the fundamental principle of *professional behavior* requires the professional accountant to avoid being involved knowingly in a professional activity that would impair the reputation of or discredit the profession. In a situation where the

accountant is engaged by a client and becomes aware of facts and circumstances about the client or engagement which might harm the reputation of the profession, the accountant would adopt a questioning mindset in pursuing inquiries and obtaining further evidence on which to base an informed conclusion about whether to continue the engagement.