



Tel: +1 212 885 8000  
Fax: +1 212 515 2591  
@: bdo@bdointernational.com  
www.bdo.global

BDO International Limited  
Contact address:  
135 West 50<sup>th</sup> Street - 23/F  
New York, NY 10020  
United States of America

25 July 2017

Mr. Ken Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue,  
New York, New York 10017 USA

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

Dear Mr. Siong,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) May 2017 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*.

Overall, we support longer-term consideration about the skillset of professional skepticism, underpinned by professional judgment, and as it relates to all professional accountants not just those performing an audit of financial statements (or other assurance engagements). In our response to the IAASB's Enhancing Audit Quality in the Public Interest consultation paper, we noted that: *'A major challenge for the IAASB (and IFAC) - and this may be something that the current Joint Working Group on Professional Skepticism is currently considering - is how the interpretation of professional skepticism can be applied to all professional accountants, but appropriately tailored to those performing an audit role.'*

While the emphasis on the role of the auditor as an evaluator of audit evidence is an important part of the financial reporting supply chain it has to be seen in the context of the evidence that is provided and made available to auditors by entity management and other sources. Having other professional accountants exercise appropriate professional skepticism or a critical mindset at the time when they are performing their roles in the earliest stages of the financial reporting supply chain, and particularly when they are much closer to data and transactions in an entity, is just as important and also in the public interest. We believe this would enhance the accuracy and reliability of financial reporting.

We would support further consideration of the extant definitions of professional skepticism across the IAASB, IESBA and IAESB and would encourage further alignment of definitions to ensure that the concept of professional skepticism as it relates to professional accountants - not just those focusing on 'audit evidence' - is further clarified. If there is concern that extending the notion of professional skepticism to all professional accountants could lessen the impact for auditors, a similar concept under a different title for non-auditors and professional accountants in business should be explored.

---

<sup>1</sup> BDO International Limited is a UK company limited by guarantee. It is the governing entity of the international BDO network of independent member firms ('the BDO network'). Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.  
Each of BDO International Limited, Brussels Worldwide Services BVBA and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network.  
BDO is the brand name for the BDO network and for each of the BDO member firms.

The following are our responses to the request for specific comments posed in the Explanatory Memorandum.

#### **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?**

Yes, we believe the proposed application material enhances the understandability of the conceptual framework in Section 120.

- 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?**

Examples are normally instances that illustrate the rule. Although the overall situation is an example (the audit of financial statements), the proposed examples of integrity, objectivity and professional competence and due care explain the relevance of the fundamental principle. They are not specific instances themselves.

We would recommend revising the lead in wording to:

'Compliance with the fundamental principles supports the exercise of such professional skepticism. For example, in an audit of financial statements, the relevance of fundamental principles is explained:' or revise the examples of integrity, objectivity and professional competence and due care to be specific instances on their own.

In addition, we believe that the ordering of the fundamental principles should be in the order of relevance for the example. We believe the order should be:

1. Professional competence and due care;
2. Objectivity; and
3. Integrity.

Our reasoning is that typically individuals would apply items in the order presented. A professional accountant can have great integrity, but if they are not technically competent, they may not be able to properly assess whether the audit evidence is sufficient and appropriate. They may be willing to be straightforward with the client, but they may not recognize that a position advanced by the client could result in financial statements being materially false or misleading.

#### **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?**

Yes, we believe the proposed application material enhances the understandability of the conceptual framework in Section 120.

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?

While the content in paragraph 120.5 A1 provides a good starting point for professional accountants obtaining a sufficient understanding of the facts and circumstances known to them - we do not believe this goes far enough.

The way in which this section is written (specifically the bullet point section) focuses on the professional accountant only in an individual or personal context. While consideration of an individual's personal attributes and skills as they apply to professional judgment is important, it does not reflect the reality of working-life in the context of the majority of audits.

As we noted in our response to the IAASB's Enhancing Audit Quality in the Public Interest - key impediments that could lead to audit failure include those such as 'groupthink' or 'anchoring' by audit engagement teams. By focusing only on the skillset of 'the professional accountant' or 'the accountant' as an individual there is an implicit danger that the impact of working as part of a wider, perhaps culturally diverse or hierarchical team, is not considered.

Another improvement within this section could be to emphasize the importance of looking not just at facts and circumstances as they relate to a particular entity - but also facts and circumstances as they arise from external sources (be they economic, market, laws and regulations, industry, etc).

We also have the following additional comments:

In our response to the IAASB's Enhancing Audit Quality in the Public Interest, we noted the following: *'Fostering an appropriately independent and challenging skeptical mindset for auditors is essential for maintaining audit quality. In that regard, we believe clarification is needed about how documentation can be enhanced to provide evidence of appropriate application of that mindset when forming auditor judgments.'*

On that basis, we would encourage the tri-partite IESBA, IAASB and IAESB group to consider, in co-operation with audit regulators, whether there is an opportunity to provide further guidance on how professional accountants performing the role of auditor can appropriately document the exercise of professional skepticism. Documenting how an individual has arrived at a particular judgment can be relatively challenging - the extent, thought-process and decision points will likely differ for each situation. Having further guidance may assist with the level and extent of documentation required by auditors.

In addition, we would encourage IESBA as part of the tri-partite working group with IAASB and IAESB to consider what implementation guidance or support can be provided, in an audit context, to ensure that the application of professional skepticism behaviors can be made more evident. As we noted in our response to the IAASB, there has to be a greater emphasis on the impediments to use of professional skepticism - and while this ED issued by the IESBA acknowledges the issues of time pressures towards the end of an engagement - there are other areas that could be considered as impediments (such as rush to solve, judgment triggers, over-confidence, confirmation bias and availability bias).

\*\*\*\*\*

We appreciate the opportunity to comment on the Exposure Draft and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited

Chris Smith  
Global Head of Audit and Accounting