| **Pronouncement** | **Paragraph number** | **Extract from Pronouncement** |
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| **Glossary** | N/A | *Definition:*  *Independence*—Comprises:  (a) Independence of mind—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, 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 a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm’s, or a member of the assurance team’s, integrity, objectivity or **professional skepticism** had been compromised. |
|  |  | *Definition:*  ***Professional skepticism***—An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence. |
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| **ISA 200** | 7 | The ISAs contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ISAs require that the auditor exercise professional judgment and maintain **professional skepticism** throughout the planning and performance of the audit and, among other things:   * Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity’s internal control. * Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks. * Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained. |
|  | 13 | *Definition:*  ***Professional skepticism*** – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. |
|  | 15 | **Professional Skepticism**  The auditor shall plan and perform an audit with **professional skepticism** recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A18–A22) |
|  | A16 | In the case of an audit engagement it is in the public interest and, therefore, required by the IESBA Code, that the auditor be independent of the entity subject to the audit. The IESBA Code describes independence as comprising both independence of mind and independence in appearance. The auditor’s independence from the entity safeguards the auditor’s ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence enhances the auditor’s ability to act with integrity, to be objective and to maintain an attitude of **professional skepticism**. |
|  | A18 – A22 | **Professional Skepticism** (Ref: Para. 15)  A18. **Professional skepticism** includes being alert to, for example:   * Audit evidence that contradicts other audit evidence obtained. * Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. * Conditions that may indicate possible fraud. * Circumstances that suggest the need for audit procedures in addition to those required by the ISAs.   A19. Maintaining **professional skepticism** throughout the audit is necessary if the auditor is, for example, to reduce the risks of:   * Overlooking unusual circumstances. * Over generalizing when drawing conclusions from audit observations. * Using inappropriate assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof.   A20. **Professional skepticism** is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.  A21. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence. In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.  A22. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity’s management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain **professional skepticism** or allow the auditor to be satisfied with less than persuasive audit evidence when obtaining reasonable assurance. |
|  | A43 | Detection risk relates to the nature, timing and extent of the auditor’s procedures that are determined by the auditor to reduce audit risk to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. Matters such as:   * adequate planning; * proper assignment of personnel to the engagement team; * the application of **professional skepticism**; and * supervision and review of the audit work performed,   assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results. |
|  | **A69** | In using the objectives, the auditor is required to have regard to the interrelationships among the ISAs. This is because, as indicated in paragraph A53, the ISAs deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics. For example, this ISA requires the auditor to adopt an attitude of **professional skepticism**; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each ISA. At a more detailed level, ISA 315 (Revised) and ISA 330 contain, among other things, objectives and requirements that deal with the auditor’s responsibilities to identify and assess the risks of material misstatement and to design and perform further audit procedures to respond to those assessed risks, respectively; these objectives and requirements apply throughout the audit. An ISA dealing with specific aspects of the audit (for example, ISA 540) may expand on how the objectives and requirements of such ISAs as ISA 315 (Revised) and ISA 330 are to be applied in relation to the subject of the ISA but does not repeat them. Thus, in achieving the objective stated in ISA 540, the auditor has regard to the objectives and requirements of other relevant ISAs. |
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| **ISA 210 (Confirming amendments – Auditor Reporting standards)** | **Appendix 1 – Example of an Audit Engagement Letter** | Extract from Illustrative Engagement Letter  [*The responsibilities of the auditor*]  We will conduct our audit in accordance with ~~International Standards on Auditing (~~ISAs~~)~~. Those standards require that we comply with ethical requirements. ~~and~~ As part of an audit in accordance with ISAs, we exercise professional judgment and maintain **professional skepticism** throughout ~~the planning and performing of~~ the audit. ~~to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also involves~~ We also:   * … |
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| **ISA 220** | A13 | Direction of the engagement team involves informing the members of the engagement team of matters such as:   * Their responsibilities, including the need to comply with relevant ethical requirements, and to plan and perform an audit with **professional skepticism** as required by ISA 200.7 * Responsibilities of respective partners where more than one partner is involved in the conduct of an audit engagement. * The objectives of the work to be performed. * The nature of the entity’s business. * Risk-related issues. * Problems that may arise. * The detailed approach to the performance of the engagement.   Discussion among members of the engagement team allows less experienced team members to raise questions with more experienced team members so that appropriate communication can occur within the engagement team. |
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| **ISA 230** | **A7** | Audit documentation provides evidence that the audit complies with the ISAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:   * The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit. * The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management or, where appropriate, those charged with governance. * An auditor’s report containing an appropriately qualified opinion on the financial statements demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the ISAs. * In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file: * For example, there may be no single way in which the auditor’s **professional skepticism** is documented. But the audit documentation may nevertheless provide evidence of the auditor’s exercise of **professional skepticism** in accordance with the ISAs. Such evidence may include specific procedures performed to corroborate management’s responses to the auditor’s inquiries. * Similarly, that the engagement partner has taken responsibility for the direction, supervision and performance of the audit in compliance with the ISAs may be evidenced in a number of ways within the audit documentation. This may include documentation of the engagement partner’s timely involvement in aspects of the audit, such as participation in the team discussions required by ISA 315 (Revised). |
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| **ISA 240** | 8 | When obtaining reasonable assurance, the auditor is responsible for maintaining **professional skepticism** throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud. The requirements in this ISA are designed to assist the auditor in identifying and assessing the risks of material misstatement due to fraud and in designing procedures to detect such misstatement. |
|  | 12 – 14 | **Professional Skepticism**  12. In accordance with ISA 200, the auditor shall maintain **professional skepticism** throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor’s past experience of the honesty and integrity of the entity’s management and those charged with governance. (Ref: Para. A7–A8)  13. Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine. If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further. (Ref: Para. A9)  14. Where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies. |
|  | A7 – A9 | **Professional Skepticism** (Ref: Para. 12*–*14)  A7. Maintaining **professional skepticism** requires an ongoing questioning of whether the information and audit evidence obtained suggests that a material misstatement due to fraud may exist. It includes considering the reliability of the information to be used as audit evidence and the controls over its preparation and maintenance where relevant. Due to the characteristics of fraud, the auditor’s **professional skepticism** is particularly important when considering the risks of material misstatement due to fraud.  A8. Although the auditor cannot be expected to disregard past experience of the honesty and integrity of the entity’s management and those charged with governance, the auditor’s **professional skepticism** is particularly important in considering the risks of material misstatement due to fraud because there may have been changes in circumstances.  A9. An audit performed in accordance with ISAs rarely involves the authentication of documents, nor is the auditor trained as or expected to be an expert in such authentication. However, when the auditor identifies conditions that cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, possible procedures to investigate further may include:   * Confirming directly with the third party. * Using the work of an expert to assess the document’s authenticity. |
|  | A17 | Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management’s responses to inquiries with an attitude of **professional skepticism**, the auditor may judge it necessary to corroborate responses to inquiries with other information. |
|  | A33 | Determining overall responses to address the assessed risks of material misstatement due to fraud generally includes the consideration of how the overall conduct of the audit can reflect increased **professional skepticism**, for example, through:   * Increased sensitivity in the selection of the nature and extent of documentation to be examined in support of material transactions. * Increased recognition of the need to corroborate management explanations or representations concerning material matters.   It also involves more general considerations apart from the specific procedures otherwise planned; these considerations include the matters listed in paragraph 29, which are discussed below. |
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| **ISA 250** | 8 | The auditor is required by this ISA to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of identified or suspected noncompliance to the auditor’s attention. Maintaining **professional skepticism** throughout the audit, as required by ISA 200, is important in this context, given the extent of laws and regulations that affect the entity. |
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| **ISA 300** | N/A | **Appendix: Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements**  The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise **professional skepticism** in gathering and evaluating audit evidence. |
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| **ISA 315** | A116 | Establishing communications with the appropriate individuals within an entity’s internal audit function early in the engagement, and maintaining such communications throughout the engagement, can facilitate effective sharing of information. It creates an environment in which the auditor can be informed of significant matters that may come to the attention of the internal audit function when such matters may affect the work of the auditor. ISA 200 discusses the importance of the auditor planning and performing the audit with **professional skepticism**, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring such information to the auditor’s attention. The auditor is then able to take such information into account in the auditor’s identification and assessment of risks of material misstatement. |
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| **ISA 330** | A1 | Overall responses to address the assessed risks of material misstatement at the financial statement level may include:   * Emphasizing to the engagement team the need to maintain **professional skepticism**. * Assigning more experienced staff or those with special skills or using experts. * Providing more supervision. * Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed. * Making general changes to the nature, timing or extent of audit procedures, for example: performing substantive procedures at the period end instead of at an interim date; or modifying the nature of audit procedures to obtain more persuasive audit evidence. |
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| **ISA 540** | A40 | The review of prior period accounting estimates may also assist the auditor, in the current period, in identifying circumstances or conditions that increase the susceptibility of accounting estimates to, or indicate the presence of, possible management bias. The auditor’s **professional skepticism** assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures. |
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| **ISA 550** | 7 | Planning and performing the audit with **professional skepticism** as required by ISA 200 is therefore particularly important in this context, given the potential for undisclosed related party relationships and transactions. The requirements in this ISA are designed to assist the auditor in identifying and assessing the risks of material misstatement associated with related party relationships and transactions, and in designing audit procedures to respond to the assessed risks. |
|  | A9 | Matters that may be addressed in the discussion among the engagement team include:   * The nature and extent of the entity’s relationships and transactions with related parties (using, for example, the auditor’s record of identified related parties updated after each audit). * An emphasis on the importance of maintaining **professional skepticism** throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions. * The circumstances or conditions of the entity that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to the auditor (for example, a complex organizational structure, use of special-purpose entities for off-balance sheet transactions, or an inadequate information system). * The records or documents that may indicate the existence of related party relationships or transactions. * The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of management override of relevant controls. |
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| **ISA 610** | A14 | In addition, the IESBA Code states that a self-review threat is created when the external auditor accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the audit. This is because of the possibility that the engagement team will use the results of the internal audit service without properly evaluating those results or without exercising the same level of **professional skepticism** as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The IESBA Code discusses the prohibitions that apply in certain circumstances and the safeguards that can be applied to reduce the threats to an acceptable level in other circumstances. |
|  | A26 | ISA 200 discusses the importance of the auditor planning and performing the audit with **professional skepticism**, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor’s attention. The external auditor is then able to take such information into account in the external auditor’s identification and assessment of risks of material misstatement. In addition, if such information may be indicative of a heightened risk of a material misstatement of the financial statements or may be regarding any actual, suspected or alleged fraud, the external auditor can take this into account in the external auditor’s identification of risk of material misstatement due to fraud in accordance with ISA 240. |
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| **ISA 700 (Revised)** | 38 | The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report shall further: (Ref: Para. A45)  (a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains **professional skepticism** throughout the audit; and  (b) Describe an audit by stating that the auditor’s responsibilities are:  (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.  (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.  (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.  (iv) To conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause an entity to cease to continue as a going concern.  (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.  (c) When ISA 60015 applies, further describe the auditor’s responsibilities in a group audit engagement by stating that:  (i) The auditor’s responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;  (ii) The auditor is responsible for the direction, supervision and performance of the group audit; and  (iii) The auditor remains solely responsible for the auditor’s opinion. |
|  | Appendix: Illustrations of Independent Auditor’s Reports on Financial Statements | **Auditor’s Responsibilities for the Audit of the Financial Statements**  Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.  Paragraph 40(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 40(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor’s responsibilities, rather than including this material in the auditor’s report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.  As part of an audit in accordance with ISAs, we exercise professional judgment and maintain **professional skepticism** throughout the audit. We also:   * … |
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| **IAPN 1000** | 71 – 72 | **Professional Skepticism**  71. **Professional skepticism** is necessary to the critical assessment of audit evidence and assists the auditor in remaining alert for possible indications of management bias. This includes questioning contradictory audit evidence and the reliability of documents, responses to inquiries and other information obtained from management and those charged with governance. It also includes being alert to conditions that may indicate possible misstatement due to error or fraud and considering the sufficiency and appropriateness of audit evidence obtained in light of the circumstances.  72. Application of **professional skepticism** is required in all circumstances, and the need for **professional skepticism** increases with the complexity of financial instruments, for example with regard to:   * Evaluating whether sufficient appropriate audit evidence has been obtained, which can be particularly challenging when models are used or in determining if markets are inactive. * Evaluating management’s judgments, and the potential for management bias, in applying the entity’s applicable financial reporting framework, in particular management’s choice of valuation techniques, use of assumptions in valuation techniques, and addressing circumstances in which the auditor’s judgments and management’s judgments differ. * Drawing conclusions based on the audit evidence obtained, for example assessing the reasonableness of valuations prepared by management’s experts and evaluating whether disclosures in the financial statements achieve fair presentation. |
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| **ISRE 2400** | 22 – 23 | **Professional Skepticism and Professional Judgment**  22. The practitioner shall plan and perform the engagement with **professional skepticism** recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A17–A20)  23. The practitioner shall exercise professional judgment in conducting a review engagement. (Ref: Para. A21–A25) |
|  | A16 | In the case of an engagement to review financial statements, the IESBA Code requires that the practitioner be independent of the entity whose financial statements are reviewed. The IESBA Code describes independence as comprising both independence of mind and independence in appearance. The practitioner’s independence safeguards the practitioner’s ability to form a conclusion without being affected by influences that might otherwise compromise that conclusion. Independence enhances the practitioner’s ability to act with integrity, to be objective and to maintain an attitude of **professional skepticism**. |
|  | A17 – A20 | ***Professional Skepticism***(Ref: Para. 22)  A17. **Professional skepticism** is necessary for the critical assessment of evidence in a review. This includes questioning inconsistencies and investigating contradictory evidence, and questioning the reliability of responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the engagement circumstances.  A18. **Professional skepticism** includes being alert to, for example:   * Evidence that is inconsistent with other evidence obtained. * Information that calls into question the reliability of documents and responses to inquiries to be used as evidence. * Conditions that may indicate possible fraud. * Any other circumstances that suggest the need for additional procedures.   A19. Maintaining **professional skepticism** throughout the review is necessary if the practitioner is to reduce the risks of:   * Overlooking unusual circumstances. * Over-generalizing when drawing conclusions from evidence obtained. * Using inappropriate assumptions in determining the nature, timing and extent of the procedures performed in the review, and evaluating the results thereof.   A20. The practitioner cannot be expected to disregard past experience of the honesty and integrity of the entity’s management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the practitioner of the need to maintain **professional skepticism** or allow the practitioner to be satisfied with evidence that is inadequate for the purpose of the review. |
|  | A26 | Assurance skills and techniques include:   * Applying **professional skepticism** and professional judgment to planning and performing an assurance engagement, including obtaining and evaluating evidence; * Understanding information systems and the role and limitations of internal control; * Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures for the review; * Applying procedures as appropriate to the review engagement, which may include other types of procedures in addition to inquiry and analytical procedures (such as inspection, re-calculation, reperformance, observation and confirmation); * Systematic documentation practices; and * Application of skills and practices relevant for writing reports for assurance engagements. |
|  | A86 | Evidence obtained through inquiry is often the principal source of evidence about management intent. However, information available to support management’s intent may be limited. In that case, understanding management’s past history of carrying out its stated intentions, management’s stated reasons for choosing a particular course of action, and management’s ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry. Application of **professional skepticism** in evaluating responses provided by management is important to enable the practitioner to evaluate whether there are any matter(s) that would cause the practitioner to believe the financial statements may be materially misstated. |
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| **ISRE 2410** | 6 | **The auditor should plan and perform the review with an attitude of professional skepticism, recognizing that circumstances may exist that cause the interim financial information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework.** An attitude of **professional skepticism** means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the entity. |
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| **ISAE 3000 (Revised)** | 12 | *Definition:*  ***Professional skepticism***―An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence. |
|  | 37 – 39 | **Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques**  37. The practitioner shall plan and perform an engagement with **professional skepticism**, recognizing that circumstances may exist that cause the subject matter information to be materiality misstated. (Ref: Para. A76–A80)  38. The practitioner shall exercise professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures. (Ref: Para. A81–A85)  39. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process. |
|  | A9 | Assurance skills and techniques include:   * Application of **professional skepticism** and professional judgment; * Planning and performing an assurance engagement, including obtaining and evaluating evidence; * Understanding information systems and the role and limitations of internal control; * Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures; * Applying procedures as appropriate to the engagement (which may include inquiry, inspection, recalculation, reperformance, observation, confirmation, and analytical procedures); and * Systematic documentation practices and assurance report-writing skills. |
|  | A33 | The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of **professional skepticism**. Matters addressed in the IESBA Code with respect to independence include:   * Financial interests; * Loans and guarantees; * Business relationships; * Family and personal relationships; * Employment with assurance clients; * Recent service with an assurance client; * Serving as a director or officer of an assurance client; * Long association of senior personnel with assurance clients; * Provision of non-assurance services to assurance clients; * Fees (relative size, overdue, and contingent fees); * Gifts and hospitality; and * Actual or threatened litigation. |
|  | A76 – A80 | ***Professional Skepticism***(Ref: Para. 37)  A76. **Professional skepticism** is an attitude that includes being alert to, for example:   * Evidence that is inconsistent with other evidence obtained. * Information that calls into question the reliability of documents and responses to inquiries to be used as evidence. * Circumstances that suggest the need for procedures in addition to those required by relevant ISAEs. * Conditions that may indicate likely misstatement.   A77. Maintaining **professional skepticism** throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:   * Overlooking unusual circumstances. * Overgeneralizing when drawing conclusions from observations. * Using inappropriate assumptions in determining the nature timing, and extent of the procedures, and evaluating the results thereof.   A78. **Professional skepticism** is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to inquiries. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.  A79. Unless the engagement involves assurance about whether documents are genuine, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by paragraph 50 to consider the reliability of information to be used as evidence.  A80. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain **professional skepticism**. |
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| **ISAE 3410** | A87 | This ISAE distinguishes the practitioner’s responsibilities in relation to compliance with two different categories of laws and regulations as follows:  (a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the GHG statement in that they determine the reported quantities and disclosures in an entity’s GHG statement. Paragraph 34(b) requires the practitioner to consider the likelihood of material misstatement due to non-compliance with the provisions of such laws and regulations when performing the procedures required by paragraphs 33L or 33R; and  (b) Other laws and regulations that do not have a direct effect on the determination of the quantities and disclosures in the GHG statement, but compliance with which may be fundamental to the operating aspects of the business, to an entity’s ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, or compliance with environmental regulations).  Maintaining **professional skepticism** throughout the engagement, as required by ISAE 3000, is important in the context of remaining alert to the possibility that procedures applied for the purpose of forming a conclusion on the GHG statement may bring instances of identified or suspected non-compliance with such laws and regulations to the practitioner’s attention. |
|  | A91 | Overall responses to address the assessed risks of material misstatement at the GHG statement level may include:   * Emphasizing to the assurance personnel the need to maintain **professional skepticism**. * Assigning more experienced staff or those with special skills or using experts. * Providing more supervision. * Incorporating additional elements of unpredictability in the selection of further procedures to be performed. * Making general changes to the nature, timing or extent of procedures, for example: performing procedures at the period end instead of at an interim date; or modifying the nature of procedures to obtain more persuasive evidence. |
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| **FRAMEWORK FOR AUDIT QUALITY** | 3 (Input factors) | The audit engagement partner is responsible for an audit engagement and therefore is directly responsible for the quality of the audit. In addition to taking responsibility for the performance of the audit, the audit, the audit engagement partner has a critical role in ensuring that the engagement team exhibits the values, ethics and attitudes necessary to support a quality audit.  Key attributes are:   * The engagement team recognizes: that the audit is performed in the wider public interest; and the importance of complying with ethical requirements. * The engagement team exhibits objectivity and integrity. * The engagement team is independent. * The engagement team exhibits professional competence and due care. * The engagement team exhibits **professional skepticism**. |
|  | 14 (Input factors) | The audit firm’s policies and procedures will impact the audit process. Key attributes that contribute to audit quality are:   * The audit methodology is adapted to developments in professional standards and to findings from internal quality control reviews and external inspections. * The audit methodology encourages individual team members to apply **professional skepticism** and exercise appropriate professional judgment. * The methodology requires effective supervision and review of audit work. * The methodology requires appropriate audit documentation. * Rigorous quality control procedures are established and audit quality is monitored and appropriate consequential action is taken. * Where required, effective engagement quality control reviews (EQCRs) are undertaken. |
|  | 109 | Some audit committees also have a responsibility to consider audit quality directly and do this as part of the process for the reappointment of auditors or when considering audit fees. This can be assisted if the audit committee has a formal process and criteria for describing the attributes of audit quality. Audit committee consideration of audit quality will be influenced by the interactions with the auditor (see paragraphs 53 to 56) and in particular by an assessment of the **professional skepticism** applied. |
|  | 113 | Such cultural dimensions are likely to impact objectivity and **professional skepticism** and the way that individuals work together, make judgments, and communicate with others. |
|  | 119 | Some cultures place a high social value on collective behavior such as loyalty to the state, the employer or the family. In such circumstances individuals are more likely to adhere to group norms and processes. In other societies individual views and approaches are valued and while this may encourage **professional skepticism** it is also likely to result in a greater variation in behavior and outcomes. |
|  | 5 | **Appendix 1:The Complexity of Defining Audit Quality**  Audit is therefore a discipline that relies on competent individuals using their experience and applying integrity, objectivity, and **professional skepticism** to enable them to make appropriate judgments that are supported by the facts and circumstances of the engagement. The qualities of perseverance and robustness are also important in ensuring that necessary changes are made to the financial statements, or, where such changes are not made, to ensure that the auditor’s report is appropriately qualified. |
|  | 2 | **Appendix 2: Quality Attributes of Input- and Process Factors**  Key attributes are:   * The engagement team recognizes: that the audit is performed in the wider public interest; and the importance of complying with ethical requirements. * The engagement team exhibits objectivity and integrity. * The engagement team is independent. * The engagement team exhibits professional competence and due care. * The engagement team exhibits **professional skepticism**. |
|  | 7 | Independence is required to safeguard individual members of the engagement team or the audit firm from influences that may compromise professional judgments, and helps them to act with integrity, and exercise objectivity and **professional skepticism**. It is also required to avoid facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or a member of the engagement team’s, integrity, objectivity or **professional skepticism** has been compromised. |
|  | 14 – 16 | 14. **Professional skepticism** is an attitude that includes the application of a questioning mindset in the context of an appropriate understanding of the entity, its business and the environment in which it operates. This understanding, together with more general business knowledge and experience, allows the auditor to assess the risks of material misstatement in an entity’s financial statements, assess the sufficiency and appropriateness of audit evidence, and reach appropriate conclusions.  15. **Professional skepticism** is an important aspect of auditor judgment related to planning, performing and evaluating the results of an audit. Unless auditors are prepared to challenge management’s assertions (including when management has used an expert), they will not act as a deterrent to fraud nor be able to conclude, with confidence, whether an entity’s financial statements are fairly presented in accordance with the financial reporting framework.  16. **Professional skepticism** involves all members of the engagement team:   * Having a questioning mindset and a willingness to challenge management assertions; * Assessing critically the information and explanations obtained in the course of their work; * Seeking to understand management motivations for possible misstatement of the financial statements; * Keeping an open mind; * Challenging the judgments of other members of the engagement team; * Having the confidence to challenge management and the persistence to follow things through to a conclusion; and * Being alert for evidence that is inconsistent with other evidence obtained or calls into question the reliability of documents and responses to inquiries. |
|  | 32 | While auditors need to apply **professional skepticism**, auditing also involves a degree of trust in management. Management lacking in integrity, by definition, cannot be trusted. Good client acceptance and continuance systems therefore evaluate whether there is information to suggest that client management lack integrity to the extent that it will not be possible to perform a quality audit. Having a rigorous client acceptance and continuance system is therefore important in helping an audit firm avoid engagements where there is a high chance of fraud or illegal acts, and thereby maintain a reputation for providing quality audits. |
|  | 45 | A sound understanding of the entity, its business and the industry in which it operates is key to the auditor being able to assess the risks of material misstatement in the financial statements to appropriately focus audit procedures and to evaluate the findings from them. It is also necessary for the exercise of **professional skepticism** and the ability to make appropriate audit judgments. |
|  | 47 | Audits of smaller entities are often conducted on site by experienced personnel who have been involved with the entity for a number of years. While such personnel usually have a good knowledge of the entity’s business, there may be threats to their objectivity and **professional skepticism**. |
|  | 48 | Auditors use their experience and the values of integrity, objectivity and **professional skepticism** to make reasonable professional judgments that are supported by the facts and circumstances of the engagement. |
|  | 54 | Furthermore, having the same staff members on an audit, one year after another, is likely to assist them in understanding the entity’s business and systems and this is often viewed positively by management and those charged with governance. Some believe that this is likely to result in effective responses to risks of material misstatement in the financial statements, as well as audit efficiency. However, prolonged involvement may result in a lack of **professional skepticism** and threats to auditor independence. |
|  | 66 | A distinction can usefully be made between providing staff with periodic performance appraisals and giving coaching and on-the-job training. While appraisals can be used to help identify an important skill or competence, that needs improvement, coaching or on-the-job training can be used to help an individual develop that skill or competence. Coaching and on-the-job training are likely to be especially important in relation to developing key personal characteristics such as integrity, objectivity, rigor, **professional skepticism**, and perseverance as well as assisting less experienced staff deal with unfamiliar audit areas. |
|  | 80 | The status of the auditing profession in a national environment can also impact the respect for auditors and therefore the effectiveness of the audit function. In environments where the audit profession is not well respected or given appropriate authority, auditors will be in a weaker position relative to management. In such circumstances, there may be a lower likelihood that auditors will probe management on significant matters or stand firm on significant audit issues. Conversely, where the profession is highly regarded or is conferred appropriate authority through the relevant mechanisms, it will be easier for auditors to demonstrate **professional skepticism** and undertake robust audits. |
|  | 82 | Auditing standards serve a fundamental role in underpinning audit quality and users’ confidence in the audit. The ISAs are designed to support the auditor in obtaining reasonable assurance and require that the auditor exercise professional judgment and maintain **professional skepticism** throughout the planning and performance of the audit and, among other things:   * Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity’s internal control; * Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to those risks; and * Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained. |
|  | 94 | Key attributes are:   * The audit methodology is adapted to developments in professional standards and to findings from internal quality control reviews and external inspections. * The audit methodology encourages individual team members to apply **professional skepticism** and exercise appropriate professional judgment. * The methodology requires effective supervision and review of audit work. * The methodology requires appropriate audit documentation. * Rigorous quality control procedures are established and audit quality is monitored and appropriate consequential action is taken. * Where required, effective engagement quality control reviews (EQCRs) are undertaken. |
|  | 97 – 99 | *The Audit Methodology Encourages Individual Team Members to Apply* ***Professional Skepticism*** *and Exercise Appropriate Professional Judgment*  97. Most audit firms use methodologies to assist staff in achieving an efficient and effective audit and for quality control processes. These methodologies sometimes involve the use of audit software that supports decisions and generates electronic working papers that can be viewed at remote locations.  98. Such methodologies can be an effective mechanism for achieving consistent compliance with auditing standards and for checking whether all necessary steps in the audit process have been performed. Methodologies also assist with documentation and, if in an electronic form, with the rapid sharing of information, including with specialists at remote locations.  99. However, there is a risk that too high a level of prescription in audit methodologies will have negative implications for other elements of audit quality. Highly prescriptive methodologies may arise from threats of litigation or overly compliance-based approaches to auditor regulation and inspections. Examples of the risk to audit quality include:   * If compliance with a very prescriptive methodology is overemphasized, there is a risk that insufficient emphasis will be given to experienced staff tailoring the specified audit procedures to the circumstances and considering whether further procedures need to be performed. * Over-emphasizing the process by which an audit is performed may detract from experienced audit partners and staff making important judgments. * Reducing too far the freedom of action of staff may undermine the motivation of these individuals and cause them not to pursue a career in auditing. * The potential to distance both partners and staff from the company being audited. |
|  | 101 | Some modern methodologies provide the opportunity for electronic, off-site review of working papers, which can enable audit issues to be shared and considered efficiently, especially when dealing with different countries and across different time zones. However, off-site review may not always be an effective means: of assessing whether staff have undertaken the audit thoroughly and demonstrated an appropriate degree of **professional skepticism**; and for developing the skills and competences of less experienced staff. |
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| **INTERNATIONAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS (Revised)** | 8 | Part B of the IESBA Code describes how the conceptual framework in Part A applies in certain situations to professional accountants in public practice, including independence. The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of **professional skepticism**. |
|  | 50 | Assurance engagements are planned and performed with an attitude of **professional skepticism** to obtain sufficient appropriate evidence in the context of the engagement about the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria. Professional judgment needs to be exercised in considering materiality, engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of procedures. |
|  | 51 – 55 | ***Professional Skepticism***  51. **Professional skepticism** is an attitude that includes being alert to, for example:  (a) Evidence that is inconsistent with other evidence obtained;  (b) Information that calls into question the reliability of documents and responses to inquiries to be used as evidence;  (c) Circumstances that suggest the need for procedures in addition to those required by relevant Assurance Standards; and  (d) Conditions that may indicate likely misstatement.  52. Maintaining **professional skepticism** throughout the engagement is necessary to, for example, reduce the risk of:   * Overlooking unusual circumstances; * Overgeneralizing when drawing conclusions from observations; and * Using inappropriate assumptions in determining the nature, timing and extent of procedures and evaluating the results thereof.   53. **Professional skepticism** is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to inquiries. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.  54. Unless the engagement involves assurance about whether documents are genuine, records and documents may be accepted as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner considers the reliability of information to be used as evidence.  55. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain **professional skepticism**. |
|  | 66 | Whether sufficient appropriate evidence has been obtained on which to base the practitioner’s conclusion is a matter of professional judgment, which involves considering the relationship between the cost of obtaining evidence and the usefulness of the information obtained. The practitioner uses professional judgment and exercises **professional skepticism** in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report. |
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