



441 G St. N.W.  
Washington, DC 20548

July 25, 2017

Mr. Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

**GAO’s Response to the International Ethics Standards Board for Accountants’ May 2017 Exposure Draft, Proposed Application Material Relating to Professional Skepticism and Professional Judgment**

Dear Mr. Siong:

This letter provides GAO’s response to the 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*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States. GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. Our comments reflect the importance we place on reinforcing the values promoted in both the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (code) and GAGAS.

We support IESBA’s efforts to promote the application of professional skepticism in audits, reviews, and other assurance engagements by supplementing the code’s existing references to professional skepticism. We believe that professional skepticism is a specific term applicable to professional accountants who perform audits, reviews, and other assurance engagements. The term has a slightly different meaning and connotes a different level of responsibility for professional accountants in business who should practice professional skepticism, but to a different extent. In our view, the meaning of the term and its importance to auditing and assurance engagements will be diminished and it will ultimately be interpreted differently if the concept is applied to all professional accountants.

**Specific Comments**

*Proposed Application Material Relating to Professional Skepticism (para. 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?**

We support IESBA’s efforts to explain how compliance with the fundamental principles supports the exercise of professional skepticism in the context of audits, reviews, and other assurance engagements. However, we suggest that the application material be placed in section 110, *The Fundamental Principles*, of the code rather than in section 120, *The*

*Conceptual Framework.* We do not believe the connection of the fundamental principles to professional skepticism directly relates to how to apply the conceptual framework. We believe the IESBA is placing this application material in section 120 because the section has a subsection, *Considerations for Audits, Reviews and Other Assurance Engagements.* We suggest creating a subsection for *Considerations for Audits, Reviews and Other Assurance Engagements* within section 110 of the code for this application material.

- 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 supports the exercise of professional skepticism in the context of an audit of financial statements? If not, why not?**

We support the proposed application material that connects the fundamental principles to professional skepticism. We believe that the proposed application material clearly emphasizes the importance of complying with the fundamental principles for professional accountants undertaking audits, reviews and other assurance engagements.

*Proposed Application Material Relating to Professional Judgment (para. 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?**

We support the addition of the proposed application material relating to professional judgment. We believe that it will enhance the professional accountants' ability to exercise professional judgment and apply the conceptual framework.

- 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?**

We agree that the proposed application material appropriately highlights matters that professional accountants should consider when obtaining an understanding of the facts and circumstances to identify, evaluate, and address threats to compliance with the fundamental principles. We believe that the proposed application material will enhance professional accountants' ability to exercise professional judgment and apply the conceptual framework.

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin  
Director  
Financial Management and Assurance