

**IBRAHIM & COMPANY**

**Certified Public Accountants**

# Applications of Professional Skepticism

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# Agenda

1. Definition
2. Renewed Focus on Professional Skepticism
3. When to Use Professional Skepticism
4. Main Areas
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7. Audit Evidence
8. Threats and mitigating factors
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# Definition

- ❑ The word skepticism originated from the Greek word “skeptikos” which means to seek information by questioning or asking.
- ❑ Professional Skepticism entails a questioning mindset, ability to analyze and critically evaluate, willingness to suspend judgment and tendency to search for knowledge.

# Definition (Continued)

- ❑ ISA 200 defines professional skepticism as “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”.
- ❑ ISA 240 states that “The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist”.

# Renewed Focus on Professional Skepticism

- ❑ Complexity of business transactions and accounting standards continue to increase.
- ❑ Expanded use of fair values.
- ❑ Subjective accounting measures and estimates.
- ❑ Management emphasis of greater judgment and discretion.
- ❑ Global financial crisis
- ❑ Business and technology are evolving very fast.
- ❑ Greater emphasis on reliable financial reporting.

# When to Use Professional Skepticism

- When assessing engagement acceptance
- When performing risk assessment procedures
- When obtaining audit evidence
- When evaluating audit evidence

# Approach

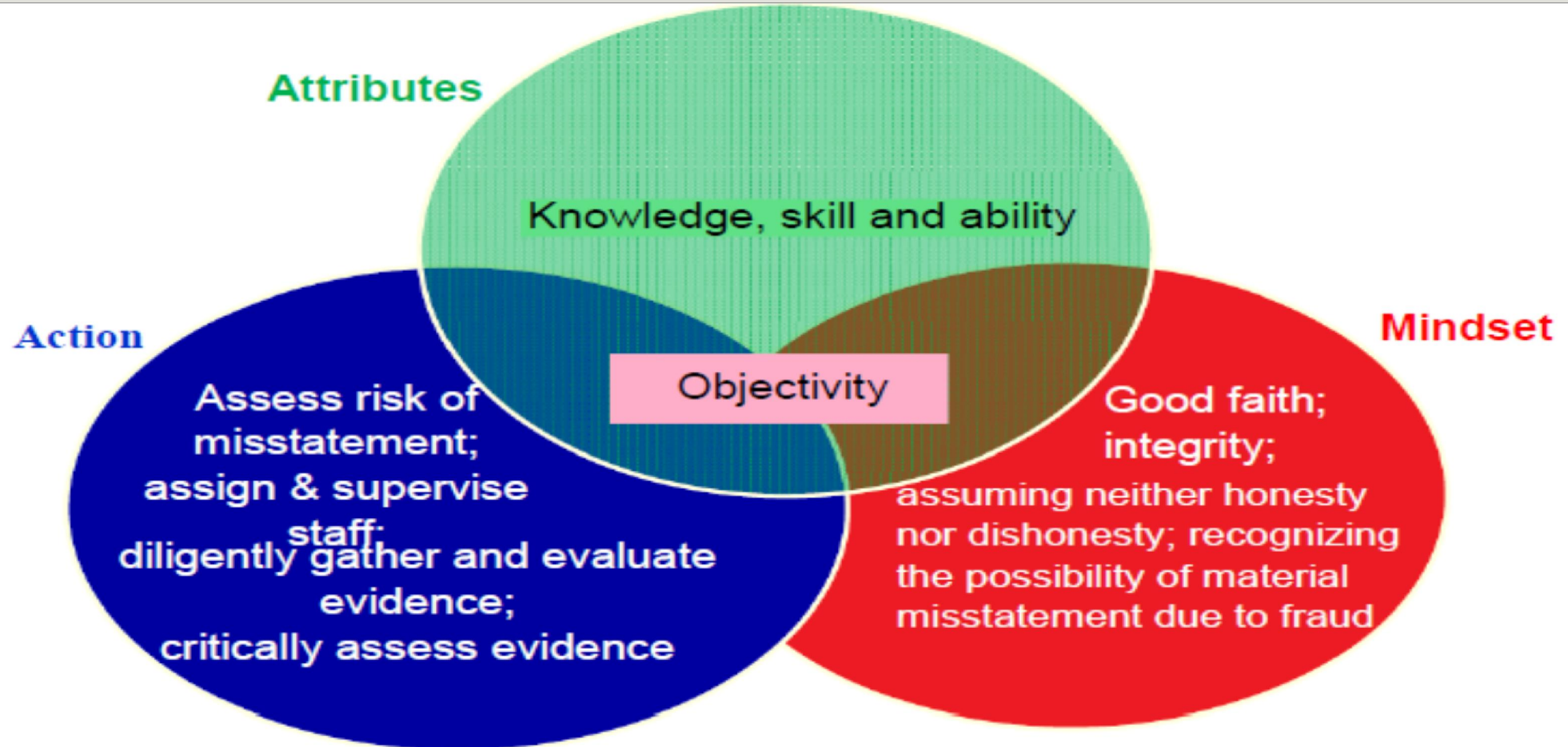
- ❑ Develop good understanding of the entity.
  - ❑ Have a questioning mind to challenge management assertions.
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- ❑ Assess critically and corroborate the information and explanations obtained.
  - ❑ Avoid jumping to conclusions with appropriate evidence.
  - ❑ Investigate the nature and cause of misstatements identified.
  - ❑ Check the consistency of evidence obtained From different sources.
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- ❑ Training less experienced staff to foster appropriate level of professional skepticism.
  - ❑ Consultation and sharing experiences about difficult audit judgments within the firm.

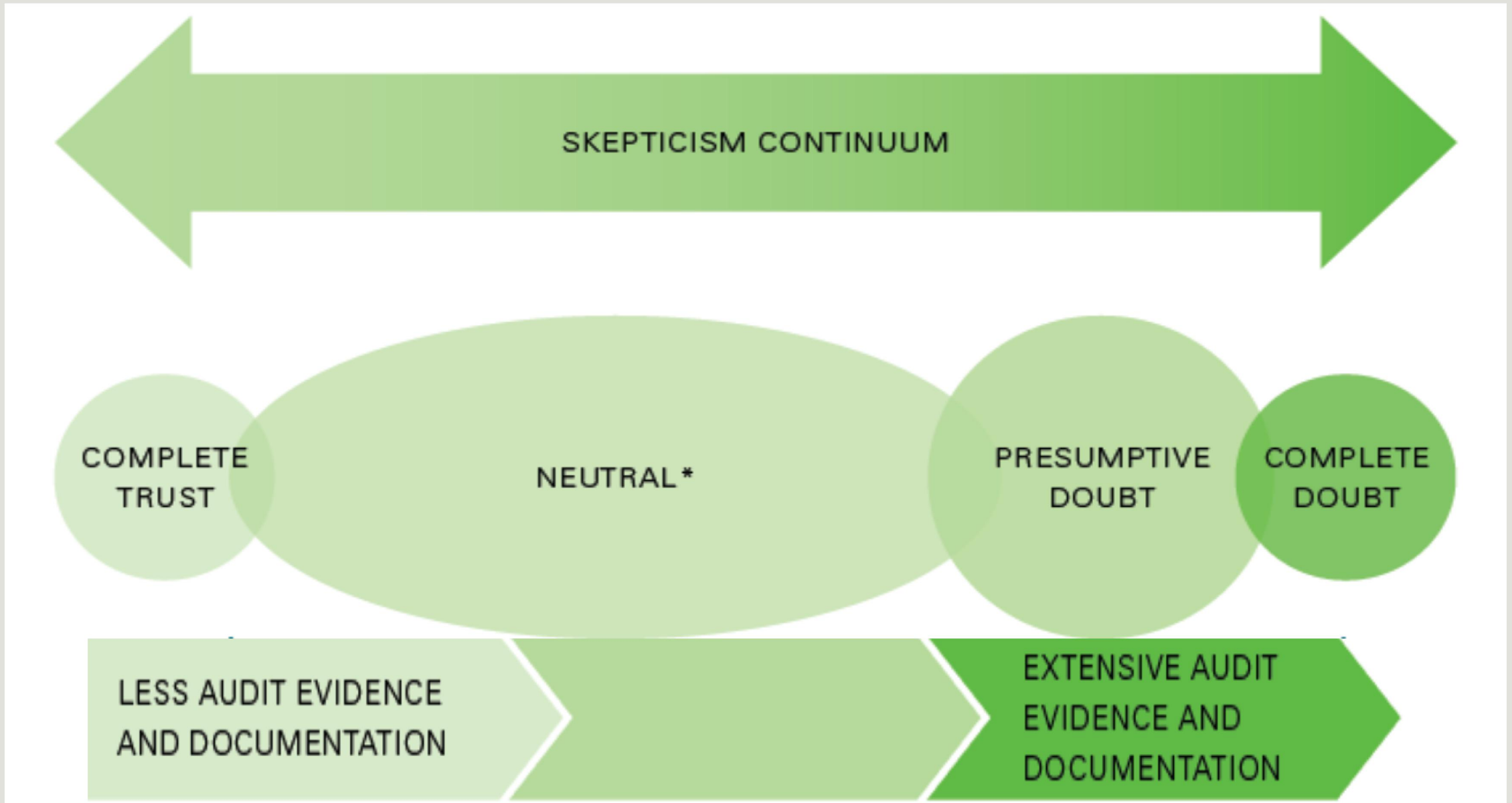
# Main Areas

- ❑ Accounting estimates – involves use significant assumptions.
- ❑ Going concern – significant doubt over the entity's ability to continue as a going concern.
- ❑ Related party transactions and disclosures - business rationale behind related party transactions.
- ❑ Consideration of laws and regulation – should alert for any indication of non-compliance.



# Elements of Professional Skepticism





**SOURCE: GLOBAL PUBLIC POLICY COMMITTEE (2013)**

# Audit Evidence

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## Less Audit Evidence

- Lower risk of material misstatement
- No indicators of fraud
- No errors detected
- Little judgment required

## High Audit Evidence

- Lower risk of material misstatement
- Fraud indicators noted
- Errors detected
- Complex judgment

# Threats and mitigating factors

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## Individual Auditor

### Threats

- ❑ Judgment biases – availability, anchoring, overconfidence and confirmation tendencies
- ❑ Lack of knowledge and experience
- ❑ Personal and cultural
- ❑ Compensation metrics
- ❑ Time pressure

### Mitigating Factors

- ❑ Follow good judgment process
- ❑ Continuous professional development
- ❑ Supervision and review
- ❑ Training
- ❑ Compensation metrics
- ❑ Effective planning

# Threats and mitigating factors

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## Engagement Team

### Threats

- Conflict of interest
- Limited resource
- Knowledge and experience
- Budget and Time pressures
- Client governance structure
- Engagement leadership
- Tone at the top
- Client relationship

### Mitigating Factors

- Partner rotation
- Quality control review
- Planning with involvement of partner
- Consultation
- Sharing of experience
- Training and mentorship
- Good judgment process

# Sound Professional Judgment

- Identify and define an issue
- Gather facts and information
- Perform analysis and identify alternatives
- Make the decision
- Documentation to enable re-performance

# Gray areas

1. To develop a common definition of the term Professional Skepticism.
2. To develop a globally recognized framework with practical implementation guidance and illustration.

# Conclusion

- ❑ Reliable financial information is important to investor confidence.
- ❑ The overall goal of enhancing skepticism is to improve the fairness, reliability and transparency of financial statements provided to the public.
- ❑ Application of professional skepticism is important to audit quality.



Questions  
Answers  
Comments

**Thank You!**