

3. Conceptual Framework

In this KLiP, we will cover the last portion:

B. Application of conceptual framework

When dealing with ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise.

The professional accountant shall apply the following conceptual framework:

1. *Have an inquiring mind*
 2. *Exercise professional judgement*
 3. *Use the reasonable and informed third party test*
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1. Have an inquiring mind

An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:

- a. Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
- b. Being open and alert to a need for further investigation or other action.

When considering the source, relevance and sufficiency of information obtained, the professional accountant might consider, among other matters, whether:

- ❖ New information has emerged or has there been any changes in facts and circumstances.
- ❖ The information or its source might be influenced by bias or self-interest.
- ❖ There is reason to be concerned of, that potentially relevant information might be missing from the facts and circumstances known to them.
- ❖ There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- ❖ The information provides a reasonable basis on which to reach a conclusion.
- ❖ There might be other reasonable conclusions that could be reached from the information obtained.

This prerequisite of inquiring mind should be applied regardless of professional activities undertaken when applying the conceptual framework. He is also required to exercise professional scepticism, which includes a critical assessment of evidence.

2. Exercise professional judgement

Professional judgement involves the **application of relevant training, professional knowledge, skill and experience** commensurate with the facts and circumstances required for the particular professional activities. Professional judgement is required, when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

3. Use the reasonable and informed third party test

The reasonable and informed third party test is a consideration by the professional accountant about whether the **same conclusions would likely be reached by another party**. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience, to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Other considerations when applying the Conceptual Framework

Conscious or unconscious bias affects the exercise of professional judgement when identifying, evaluating and addressing threats to compliance with the fundamental principles. The actions that might mitigate the effect of bias include:

1. Seeking advice from experts to obtain additional input.
2. Consulting with others to ensure the issue was appropriately challenged as part of the evaluation process.
3. Receiving training to identify bias as part of professional development.

The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organisation.

Therefore, the ethical culture within the organisation will be most effective when:

- a. Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organisation;
- b. Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- c. Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behaviour, including whistle-blowers; and
- d. The organisation adheres to ethical values in its dealings with third parties.

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Professional accountants in public practice are required by Independence Standards to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity.

Professional accountants in public practice are also required to exercise professional scepticism when planning and performing audits, reviews and other assurance engagements. Professional scepticism and the fundamental principles are inter-related concepts and are compliance with the fundamental principles, individually and collectively, supports the exercise of professional scepticism.

With this we come to the end of Part 1.