

Greetings!!!

Professional skepticism is the state of mind which is ready for the situation that grabs out the errors or questions the financial events and other events while conducting an assurance engagement. It's basically a skill just like the professional judgement which makes the auditor alert for any particular situation. The exercise of professional skepticism is fundamental to the successful performance of auditors, audit firms, and the audit profession as a whole in discharging their responsibilities to capital markets and the society at large.

Professional skepticism is actually an attitude of the questioning mind. In this attitude they ask the questions which will be helpful for knowing the future consequences. They measure every side effect of the information which they obtain by their questioning attitude or mind. They also ask the questions which will help them to make critical assessment of the financial events with a strong set of evidences. Professional skepticism is a topic of great importance to the audit profession, audit regulators, audit standard setters and others who work in the audit arena for the benefit of the public interest. The term "Professional Skepticism" is widely used but may mean differently to different organizations and individuals.

The word scepticism is derived from the Greek word "skeptikos" which means to "enquire or reflect". In the audit context scepticism relates to the process of seeking information through client enquiry using a combination of relationship, questioning and problem solving skills.

The auditor should also apply professional scepticism when forming the auditor's opinion, by considering the overall sufficiency of evidence to support the audit opinion, and by evaluating whether the financial statements overall are a fair presentation of underlying transactions and events.

The challenge for audit firms is to identify, develop and retain people with the necessary skills to undertake audits with a sceptical mind-set. It also involves nurturing the conditions that allow professional scepticism to flourish.

The three elements of professional skepticism – auditor attributes, auditor mindset, and auditor actions permeate the entire audit process and are integral to audit quality. These elements of professional skepticism interact dynamically as auditors respond to conditions and pressures that change or arise during the audit. Professional

skepticism is particularly important in examining areas that involve significant management judgment or transactions outside the normal course of business. Examples of such areas include nonrecurring reserves, financing transactions and related-party transactions. In addition, auditors consider the impact of uncorrected misstatements, evaluate the potential for management bias and assess whether financial statements are presented fairly.

Professional skepticism also plays a critical role in an auditor's consideration of fraud. Where the risk of fraud is high, an auditor might modify planned audit procedures to gather more reliable evidence in support of financial statement assertions. For example, an auditor might obtain confirmation from an independent third party, engage a specialist or examine documentation from independent sources to corroborate management representations.

The objective of financial audit is to assure that the expenditures shown by the management are correct so as to ensure genuine profit to the stakeholders. However, the profitability of a product depends on the productivity of the factors of production. that can be improved with cost audit. There is no substitute of cost audit for nurturing cost culture in the country. Hence, cost audit should be in line with financial audit. It will build a good team of auditors sharing the professional expertise and can act as a motivational factor for each other thereby strengthening professional scepticism. The role of CMAs suggests that Professional scepticism is the cornerstone of audit quality and can encourage team members to work with a sceptical mind set.

This issue presents a good number of articles on the cover story theme "Professional Scepticism" by distinguished experts and authors. We look forward to constructive feedback from our readers on the articles and overall development of the journal. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

