Q. What is the Conceptual Framework Approach?

A. It is a framework that requires a professional accountant to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules. Professional accountants are required to apply this conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance and, if such threats are other than clearly insignificant than to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.

Q. What are the threats involved while complying with the fundamental principles?

A. Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
   (a) Self-interest threats
   (b) Self-review threats;
   (c) Advocacy threats;
   (d) Familiarity threats;
   (e) Intimidation threats.

Q. What are the available safeguards that may eliminate or reduce the threats at an acceptable level?

A. Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:
   (a) Safeguards created by the profession, legislation or regulation; and
(b) Safeguards in the work environment.

Q. What is Ethical Conflict Resolution?

A. Ethical conflict resolution means to resolve a conflict in the application of fundamental principles while evaluating compliance with the fundamental principles.

Q. What is a Client Acceptance, Engagement Acceptance and Changes in Professional Appointment?

A. Section 210 of Part - A of Code of Ethics deals with Professional Appointment:
(a) Client Acceptance - Under this a professional accountant in public practice should consider, before accepting a new client relationship, whether acceptance would create any threats to compliance with the fundamental principles.
(b) Engagement Acceptance - A professional accountant in public practice should agree to provide only those services that the professional accountant in public practice is competent to perform.
(c) Changes in Professional Appointment - A professional accountant in public practice who is asked to replace another professional accountant should determine whether there are any reasons, professional or other, for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles. It shall require direct communication with the existing accountant to establish the facts and circumstances behind the proposed change so that the professional accountant in public practice can decide whether it would be appropriate to accept the engagement.

Under all the 3 circumstances, the significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them
to an acceptable level. Where it is not accountant in public practice should decline to enter into the client relationship.

Q. **What are the measures available to Professional Accountants in case conflict of interest arises?**

A. A professional accountant in public practice should take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may give rise to threats to compliance with the fundamental principles. A Professional Accountant should evaluate the significance of any threats. Depending upon the circumstances giving rise to the conflict, safeguards should ordinarily notify the client / all known relevant parties. The additional safeguards e.g. the use of separate engagement teams, Clear guidelines for members of the engagement team on issues of security and confidentiality, Regular review of the application of safeguards by a senior individual not involved with relevant client engagements should also be considered.

Q. **Whether a Professional Accountant in Public Practice may pay or receive a referral fees or commission?**

A. A professional accountant in public practice may receive a referral fee or commission relating to a client and may pay a referral fee to obtain a client. A professional accountant in public practice should not pay or receive a referral fee or commission, unless the professional accountant in public practice has established safeguards to eliminate the threats or reduce them to an acceptable level.

Q. **What are the safeguards available to a Professional Accountant in Public Practice in respect of Custody of Client Assets?**

A. A professional accountant in public practice entrusted with money (or other assets) belonging to others should:

(a) Keep such assets separately from personal or firm assets;
(b) Use such assets only for the purpose for which they are intended;
(c) At all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting;
(d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

Q. What is Independence?

A. Independence requires:
   Independence of Mind - The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
   Independence in Appearance - The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm’s, or a member of the assurance team’s, integrity, objectivity or professional skepticism had been compromised.

Q. What is the Conceptual Framework to Independence?

A. It is to be applied to specific circumstances and relationships. It gives various examples about the threats to independence that may be created by specific circumstances and relationships and also provides how professional judgment is used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level depending on the characteristic of the individual assurance engagement.

*****