Matter for ‘Know Your Ethics’ – May, 2015 issue of the CA Journal

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 client assets 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. When conflict of interest arises, what are the options available to a firm/Network firm when the firm/ network firm has a direct financial interest/Indirect financial interest in a Financial Statement Audit Client or a client that is not a Financial Statement Audit client?

A. When conflict of interest arises, the options available to a firm/Network firm when it has a direct financial interest/Indirect financial interest in a Financial Statement Audit Client/ or a client that is not a Financial Statement Audit client, are:
   (a) Dispose of the interest; or
   (b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material; or
   (c) Withdraw from the audit.

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

A. Safeguards that may eliminate or reduce the 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 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 include notifying 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. **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 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 Engagement Period?**

A. The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature.

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 is Financial Statement Audit Client?**

**A.** Financial Statement Audit client means an entity in respect of which a firm conducts a financial statement audit engagement. When the client is a listed entity, financial statement audit client will include its related entities, wherever applicable.

**Q. Whether a loan, or a guarantee of a loan to the professional accountant/any partner of the firm/firm from an assurance client, or deposits made by, or brokerage accounts of a firm or a member of the assurance team with an assurance client, creates any threats to Independence?**

**A.** A loan, or a guarantee of a loan to the professional accountant/any partner of the firm/firm from an assurance client or deposits made by, or brokerage accounts of a firm or a member of the assurance team with an assurance client creates threats to Independence unless;

(a) It is made within the terms of statutory provisions and guidelines/ guidance notes issued by the Council of the Institute from time to time;

(b) When assurance client that is a bank or a similar institution, provided the loan, or guarantee/ deposit or brokerage account is made under normal procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

**Q. What is the meaning of Direct Financial Interest?**

**A.** Direct Financial Interest means

- Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.

**Q. What is the meaning of Indirect Financial Interest?**

**A.** Indirect Financial Interest means a financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
Q. What are the examples of Close Business Relationships giving rise to conflict of interest?

A. Examples of Close business Relationships giving rise to conflict of interest are
(a) Material financial interest in Joint venture;
(b) Arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties.;
(c) Business relationships involving an interest held by the firm, a network firm or a member of the assurance team or their relative(s) in a closely held entity when the audit client or a director or officer of the audit client, or any group thereof, also has an interest in that entity;
(d) The purchase of goods and services from an assurance client by the firm (or from a financial statement audit client by a network firm) or a member of the assurance team, etc.

Q. Whether a person who is an officer or employee of an entity shall be qualified for appointment as auditor of that entity?

A. As per Section 290.148 of Part – A of Code of Ethics 2009, no person who is an officer or employee of an entity shall be qualified for appointment as auditor of that entity.

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