

## Matter for 'Know Your Ethics' – June, 2013 issue of the CA Journal

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. 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 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. 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 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) Dispose of the interest
- (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. 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) Made within the terms of statutory provisions and guidelines/ guidance notes issued by the Council
- (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.

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. What are the safeguards available when the same senior personnel have been engaged over a long period of time by an Assurance Client in an Assurance Engagement?

A. The following safeguards are available, using the same senior personnel on an assurance engagement over a long period of time:

Rotating the senior personnel off the assurance team;

Involving an additional professional accountant who was not a member of the assurance team to review the work done by the senior personnel or otherwise advise as necessary; or

Independent internal quality reviews, 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 no person who is an officer or employee of an entity shall be qualified for appointment as auditor of that entity.

Q. Whether a firm can obtains an assurance engagement at a significantly lower fee level than that charged by the predecessor firm, or quoted by other firms?

A. When a firm obtains an assurance engagement at a significantly lower fee level than that charged by the predecessor firm, or quoted by other firms the threat created will not be reduced to an acceptable level unless:

- (a) The firm is able to demonstrate that appropriate time and qualified staff are assigned to the task; and
- (b) All applicable assurance standards, guidelines and quality control procedures are being complied with.

Q. When the situation for Potential Conflict arises?

A. When the responsibilities to an employing organization and the professional obligations to comply with the fundamental principles are in conflict, the situation of potential conflict arises for the Professional Accountant in service.

Q. Whether a Professional Accountant in Service should undertake those tasks for which he does not have sufficient specific training or experience?

A. The fundamental principle of professional competence and due care requires that a professional accountant in service should only undertake significant tasks for which the professional accountant in service has, or can obtain, sufficient specific training or experience. A professional accountant in service should not intentionally mislead an employer as to the level of expertise or experience possessed, nor should a professional accountant in service fail to seek appropriate expert advice and assistance when required.

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