

Know Your Ethics

Ethical Issues in Question-Answer Form

Q. Whether the practice of issuing Auditor's Report on letter head of the firm is correct?

- A. The Ethical Standards Board at its 126th Meeting held on 10th January, 2014 approved of the practice of issuing Auditor's Report on Letter Head of the Firm. Accordingly, the Auditor's Report should be issued on Letter Head of the Firm.

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:
- Keep such assets separately from personal or firm assets;
 - Use such assets only for the purpose for which they are intended;
 - At all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting;
 - 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:
- Dispose of the interest; or
 - Dispose of a sufficient amount of the interest so that the remaining interest is no longer material; or
 - 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:

- Safeguards created by the profession, legislation or regulation; and
- 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. ■

* Contributed by the Ethical Standards Board of the ICAI