

Matter for 'Know Your Ethics' – June, 2015 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. 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.

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.

Q. Whether a firm can obtain 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. Can a Chartered Accountant provide 'Portfolio Management Services' (PMS) as part of CA practice?

A. No, the Explanation to Clause (xix) of the definition of 'Management Consultancy and other Services' expressly bars the activities of broking, underwriting and Portfolio Management.

Q. Whether a practicing Chartered Accountant can agree to select and recruit personnel, conduct training programmes and workstudies for and on behalf of a client?

A. Yes. The expression "Management Consultancy and other Services" defined by the Council includes both personnel recruitment and selection and conducting training programmes and work-studies. Therefore, a Chartered Accountant in practice shall not commit any professional misconduct by rendering such services for and on behalf of the client.

Q. When does 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. Can a member in practice render Management Consultancy and other services?

A. Yes, however, the areas covered under the Management Consultancy and other services have been summarized by the Council, appearing in the Code of Ethics, 2009 Edition.

Q. Whether a Chartered Accountant in practice is required to obtain any trade license for practicing?

A. No, a Chartered Accountant in practice is not required to obtain any trade licence for practicing as a professional. The certificate of practice issued by the Institute is the only requirement to practice as a Chartered Accountant.

Q. Whether a member in practice is permitted to undertake the management of NRI funds?

A. No, the member is not permitted to undertake such assignment because the same is not covered under "Management Consultancy and Other Services" permitted to be rendered by the practicing members of the Institute.
