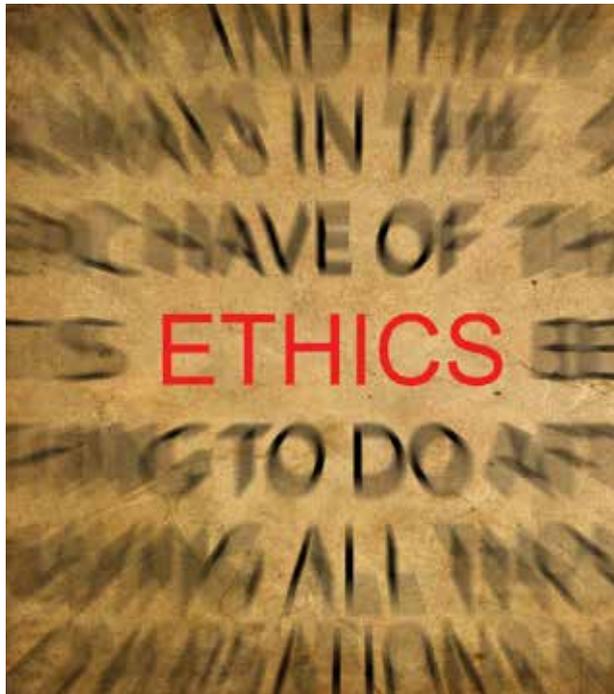


# Know Your Ethics

Ethical Issues in Question-Answer Form\*



**Q. What is the status of a Chartered Accountant who is a salaried employee of a Chartered Accountant in practice or a firm of such Chartered Accountants?**

- A. An associate or a fellow of the Institute who is a salaried employee of a Chartered Accountant in practice or a firm of such Chartered Accountants shall, notwithstanding such employment, be deemed to be in practice for the limited purpose of the training of articled assistants. He may hold Certificate of Practice but he is not entitled to do attest functions w.e.f. 1.4.2005.

**Q. Can a member holding Certificate of Practice is entitled to own Agricultural land and continue agricultural activity?**

- A. Yes, member holding Certificate of Practice can own and hold agricultural land and continue agricultural activity.

**Q. Can a member act as a Tax Auditor and Internal Auditor of an entity?**

- A. No, the Council has decided that Tax Auditor of an entity cannot act as an Internal Auditor of the same entity, or vice-versa for the same financial year.

**Q. What are the Fundamental Principles which a Professional Accountant is required to comply?**

- A. A professional accountant is required to comply with the following fundamental principles:
- Integrity:** A professional accountant should be straightforward and honest in all professional and business relationships.
  - Objectivity:** A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional judgments.
  - Professional Competence and Due Care:** A professional accountant should act diligently and in accordance with applicable technical and professional standards while providing professional services.
  - Confidentiality:** A professional accountant should not disclose information acquired in the course of his professional and employment relationships to any person without proper and specific authority unless there is a legal or professional right or duty to disclose.
  - Professional Behaviour:** A professional accountant should comply with relevant laws and regulations and should avoid any action that discredits the profession.

**Q. What is the Conceptual Framework Approach?**

- A. The circumstances in which professional accountants operate may give rise to specific threats to compliance with the fundamental principles. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework 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

\* Contributed by the Ethical Standards Board of ICAI

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 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:-

- (a) Notifying the client of the firm's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances; or
- (b) Notifying all known relevant parties that the professional accountant in public practice is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act; or
- (c) Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.

The following additional safeguards should also be considered:

- (a) The use of separate engagement teams; and
- (b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing); and

- (c) Clear guidelines for members of the engagement team on issues of security and confidentiality; and
- (d) The use of confidentiality agreements signed by employees and partners of the firm; and
- (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.

**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 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. Whether a member holding Certificate of Practice can provide an equity research service, and can publish retail research report after giving NISM research analyst exam?**

A. A member in practice may be an equity research adviser, but he cannot publish retail report as it would amount to other business or occupation. ■