

Know Your Ethics

Ethical Issues in Question-Answer Form*



Q. What are the safeguards available to a Professional Accountant in Public Practice in respect of Custody of Client Assets?

- A. A member in practice entrusted with money (or other assets) belonging to others 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.

In this regard, the provisions of Clause (10) of part I of First Schedule to the Chartered Accountants Act, 1949 may be referred as per which a member in practice shall be deemed to be guilty of professional misconduct, if he fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or uses such money for purposes other than they are intended for.

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. If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

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. The members should also refer to the provisions of Companies Act, 2013, and any other statute(s), where there is specific provision in this regard.

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 :-
- Material financial interest in Joint venture.
 - 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.
 - 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,
 - 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.

With regard to Companies, as per Companies (Audit and Auditors) Rules, 2014, for the purpose of clause (e) of sub-section (3) of section 141 of Companies Act, 2013, the term “business relationship” shall be construed as any transaction entered into for a commercial purpose, except –

- commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;
- commercial transactions which are in the ordinary course of business of the company at arm’s length price - like sale of products or services to the auditor, as customer, in the ordinary course of business, by

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companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

Q. 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. 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 is:
- Dispose off the interest
 - Dispose off a sufficient amount of the interest so that the remaining interest is no longer material; or
 - 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 would not create threats to Independence, provided:-
- The loan or guarantee is made within the terms of statutory provisions and guidelines/guidance notes issued by the Council of the Institute from time to time, in this regard.
 - If the assurance client is a bank or a similar institution, provided the loan, or guarantee/deposit or brokerage account is made under normal procedures, terms and requirements.

With regard to Companies, as per section 141 of the Companies Act, 2013, a person, or its relative or partner shall not be eligible for appointment as an auditor of a company, if he :-

- Is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or as subsidiary of such holding company.
As per Rule 10 of Companies (Audit and Auditors) Rules, 2014, a relative of an auditor

may hold securities in the company of face value not exceeding rupees one lakh.

- Is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company in excess of such amount as may be prescribed. The said amount as prescribed under Rule 10 of Companies (Audit and Auditors) Rules, 2014 is rupees five lakhs.
- Has given guarantee or provided any security in connection with the indebtedness of any third person to the company or a subsidiary of such holding company, for such amount as may be prescribed.

The said amount as prescribed under Rule 10 of Companies (Audit and Auditors) Rules, 2014 is rupees one lakh.

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. 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; 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.

In respect of the financial statement audit of listed entities:

- The engagement partner and the individual responsible for the engagement quality control review should be rotated after serving in either capacity, or a combination thereof, for a pre-defined period, normally no more than seven years; and
- Such an individual rotating after a pre-defined period should not participate in the audit engagement until a further period of time, normally two years, has elapsed. ■