

Revised Code of Ethics - Fundamental Principles and Conceptual Framework

Ethical quandary confronted by a professional accountant in the present times is very distinct on account of ever changing and challenging business environment. More so, on account of the thrust being placed on fulfilment of his responsibility to act in the public interest. Accordingly, the revised Code of Ethics contains “Requirements” and “Application Material” to aid the professional accountant to fulfil his function to act in the public interest.

This article is directed to guide and assist members while carrying out their professional assignments keeping in mind the foremost important fact that they have to fulfil their act in the Public Interest. We have brought out the major changes in the revised code and specifically we have covered fundamental principles and conceptual framework

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The revised edition of the Code has been made compatible with Indian conditions so as to not to contradict with Indian domestic laws. The provisions of the revised Code have also been aligned with the provisions of the Companies Act, 2013. It covers the refreshed approach and certain substantially revised requirements.

The operative date of the revised Code of Ethics for Professional Accountants is fast approaching. This revised Code of ICAI is based on the 2018 edition of Code of Ethics issued by International Ethics Standards Board for Accountants (IESBA) and will be implemented from a date which will be announced shortly. IESBA is the ethics standards setting Committee of International Federation of Accountants. The 2018 edition of the Code has

almost completely been rewritten by IESBA.

Objective: We are covering the fundamental principles and conceptual framework as contained in the revised Code of Ethics edition 2019 and as to how it has evolved from its earlier edition, 2009. This article will help the members in understanding and interpreting the nuances of the revised Code and guide the members to fulfil their role of professional accountants to act in the public interest diligently.

Key Features : There are three key differences in the layout and perspective of the revised Code vis a vis the existing Code and the same has broadened the dimension of the revised code clearly guiding the professional accountant to deal with the

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various intricacies while carrying out his professional assignments. Foremost amongst them is to fulfil his professional responsibility to act in the “Public Interest”. The revised Code has laid down the “**Requirements**” and “**Application Material**” specifically to enable professional accountants to meet their responsibility to act in the Public Interest. Thus, the revised code is an enabler to act in the Public Interest. On the other hand, the existing Code mentions about professional accountant while acting in the public interest should observe and comply with the ethical requirements of this Code. Greater emphasis has been specifically put on compliance by the professional accountants in the revised Code which is not there in the existing one. The word “shall” has been used to convey the mandatory requirements of the Code at various places.

The revised Code has dealt with in detail the “application material”, designated with the letter “A” and obligations designated with the letter “R”. The application material is intended to help a professional accountant to understand and comprehend how to apply the conceptual framework to a particular set of circumstances and to comply with a specific requirement. Consideration of the “application material” is necessary to the proper application of the requirements

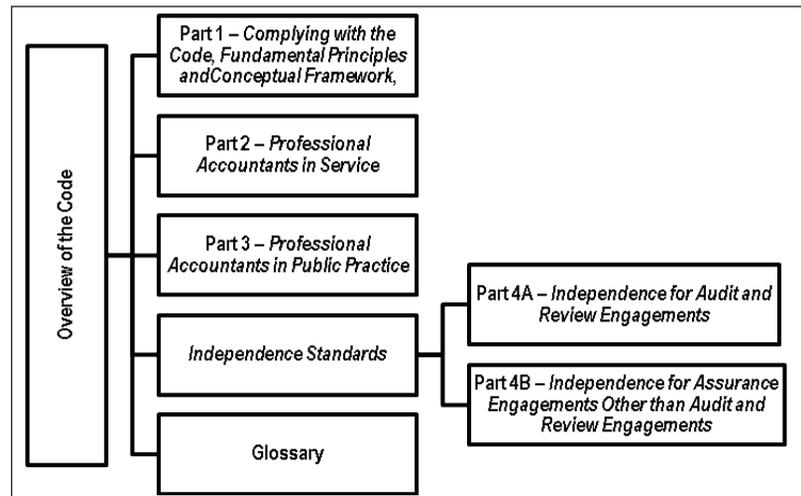
(A) Integrity

CODE OF ETHICS, 2009	CODE OF ETHICS, 2019
Section 110 - Integrity 110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and employment relationships .	Subsection 111 – Integrity R111.1 A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships . 111.1 A1 Integrity implies fair dealing and truthfulness.

The Code provides a conceptual framework that professional accountants have to implement with a view to identify, evaluate and address threats to comply with the fundamental principles.

of the Code, including application of the conceptual framework. The existing Code, however, is not dealing with the “application material” and “requirements” to enable professional accountants to meet their responsibility to act in the public interest.

Overview of the Code



The Fundamental Principles

Let us understand as to how fundamental principles have been dealt with and have undergone a change in the revised Code in comparison with the existing Code.

The Code provides a conceptual framework that professional accountants have to implement with a view to identify, evaluate and address threats to comply with the fundamental principles. The existing sections on Independence have been restructured as Independence Standards in the revised Code as under:

- **Independence Standards**
 - Part 4A – **Independence for Audit and Review Engagements**
 - Part 4B – **Independence for Assurance Engagements Other than Audit and Review Engagements**

CODE OF ETHICS, 2009	CODE OF ETHICS, 2019
<p>Integrity also implies fair dealing and maintaining an impartial attitude and truthfulness.</p> <p>110.2 A professional accountant should not be associated with reports, returns, communications or other information where he believes that the information:</p> <p>(a) Contains a materially false or misleading statement; (b) Contains statements or information furnished negligently; or (c) Omits or obscures any information required to be included where such omission or obscurity would be misleading.</p>	<p>R111.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:</p> <p>(i) Contains a materially false or misleading statement; (ii) Contains statements or information provided negligently; or (iii) Omits or obscures required information where such omission or obscurity would be misleading.</p> <p><i>When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information</i></p>

The revised Code has directly emphasised the need for complying with the principle of integrity whereas the existing Code is not mandatorily laying stress on compliance with principle of integrity. The scope of the principle has been enlarged by replacing employment relationships with business relationship. Accordingly, the member is required to be

straightforward and honest in all professional and business relationships and not restricting to employment relationships.

The principle in the revised Code has done away with the anomaly of “should not be associated with reports, returns.....” with “shall not knowingly be associated with reports, returns....” and after becoming aware of having been

associated with information as mentioned above, shall take steps to be disassociated from that information, which is a clear step for making it more realistic and pragmatic.

In the revised Code, **meaning of integrity has been restricted** to fair dealing and truthfulness whereas in the existing Code the meaning of integrity was more open ended.

(B) Objectivity

CODE OF ETHICS, 2009	CODE OF ETHICS, 2019
<p>Section 120 Objectivity</p> <p>120.1 The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional duty or while in service judgment because of bias, conflict of interest or the undue influence of others.</p> <p>120.2 A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgment of the professional accountant should be avoided.</p>	<p>Subsection 112 – Objectivity</p> <p>R112.1 A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.</p> <p>R112.2 A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant’s professional judgment regarding that activity.</p>

The revised Code has precisely pointed out the need for complying with the principle of Objectivity whereas the existing Code is not obligatorily placing emphasise on compliance with principle of Objectivity. The scope of the principle has been widened by replacing professional duty and service judgement with professional or business judgement. Accordingly, more

leverage has been given to the members by replacing duty with judgement and service with business. It is pertinent to mention over here that edge has been accorded to members’ professional judgement over professional duty, thus, giving him more freedom and independence to apply his professional skepticism.

The subjectivity in the

existing Code in context with relationships that “bias or unduly influence the professional judgement of the professional accountant should be avoided” has been overcome by directly instructing the member not to undertake a professional activity categorically if a circumstance or relationship unduly influences the professional accountant’s professional judgement.

(C) Professional Competence and Due Care

CODE OF ETHICS, 2009	CODE OF ETHICS, 2019
<p>Section 130 Professional Competence and Due Care</p> <p>130.1 The principle of professional competence and due care imposes the following obligations on professional accountants:</p> <p>(a) To maintain professional knowledge and skill at the level required to ensure that the clients or employers receive competent professional service; and</p> <p>(b) To act diligently in accordance with applicable technical and professional standards while providing professional services.</p> <p>130.5 A professional accountant should take steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.</p> <p>130.6 Where appropriate, a professional accountant should make clients, employers or other users of the professional services aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.</p>	<p>Subsection 113 – Professional Competence and Due Care</p> <p>R113.1 A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to : 111. Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and</p> <p>112. Act diligently and in accordance with applicable technical and professional standards.</p> <p>R113.2 In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.</p> <p>R113.3 Where appropriate, a professional accountant shall make clients, the employing organisation, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.</p>

The revised Code has explicitly underlined the need for complying with the principle of Professional Competence and Due Care whereas the existing Code is not compulsorily insisting on compliance with principle of Professional Competence and Due Care. More clarity has been brought out in the revised Code by replacing 'employers' with 'employing organisation'. Further, more emphasis has been laid on possession of "current technical and professional standards and relevant legislations" while providing professional services to clients or employing organisation.

The scope of the principle has been enlarged by replacing professional duty and service judgement with professional or business judgement. Accordingly,

more leverage has been given to the member by replacing duty with judgement and service with business. It may be noted that the stress has been laid out more on member's professional judgement rather than professional duty, thus, giving him more freedom and independence to apply his professional skills to a greater extent.

In the revised Code, professional accountant's staff training has been made mandatory whereas earlier, it was recommendatory. The words, "should take steps to ensure.", have been replaced with "shall take reasonable steps to ensure." definitely give command to professional accountant telling him that he shall take reasonable steps to ensure that those working in a professional capacity under his authority

have appropriate training and supervision, meaning thereby that he must do that training of staff working under him in professional capacity by taking reasonable steps.

The implication of this would be that competence of staff would definitely increase and its ultimate benefit will flow to him only.

Revised Code is specifically making it incumbent for the professional accountant to make clients aware of his limitations inherent in the services. Whereas, in the existing Code, an advisory is given to the professional accountant to make his client aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

(D) Confidentiality

CODE OF ETHICS, 2009	CODE OF ETHICS, 2019
<p>Section 140 - Confidentiality</p> <p>A professional accountant should maintain confidentiality even in a social environment. The professional accountant should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a relative*.</p> <p>140.4 A professional accountant should also consider the need to maintain confidentiality of information within the firm or employing organisation.</p> <p>The principle of confidentiality imposes an obligation on professional accountants to refrain from:</p> <p>(a) Disclosing outside the firm or employing organisation information acquired as a result of professional and employment relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and</p>	<p>Subsection 114 – Confidentiality</p> <p>R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and employment relationships. An accountant shall:</p> <p>(a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;</p> <p>(b) Maintain confidentiality of information within the firm or employing organisation;</p> <p>(c) Maintain confidentiality of information disclosed by a prospective client or employing organisation;</p> <p>(d) Not disclose confidential information acquired as a result of professional and employment relationships outside the firm or employing organisation without proper and specific authority, unless there is a legal or professional duty or right to disclose;</p>

The revised Code has significantly emphasised the need for complying with the principle of Confidentiality whereas the existing Code is not imperatively laying focus on compliance with the principle of Confidentiality.

Introduction of the word “respect” which was not in existing Code.

“To respect the confidentiality of information.”

The term “respect” indicates

high level of regard and thoughtfulness on the part of professional accountant to manage confidentiality with the highest level of integrity and thereby developing a stronger relationship.

The word Relative has been replaced with Close family or immediate family member, which are defined as under :

Close family : A parent, child or sibling who is not an immediate family member.

Immediate family : A spouse (or equivalent) or dependent.

“Should also consider...”, replaced with “shall maintain...”, existing Code requires a professional accountant to consider the need to maintain confidentiality of information disclosed by a prospective client or employer. Whereas, the revised Code has made it mandatory for a professional accountant to maintain confidentiality of information within the firm or employing organisation.

(E) Professional Behaviour

CODE OF ETHICS, 2009	CODE OF ETHICS, 2019
<p>Section 150 Professional Behaviour</p> <p>150.1 The principle of professional behaviour imposes an obligation on professional accountants to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession.</p> <p>The professional accountants should act in a manner consistent with the reputation of the profession and refrain from any conduct which might bring disrepute to the profession.</p>	<p>Subsection 115 – Professional Behaviour</p> <p>R115.1 A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession.</p> <p>A professional accountant shall not knowingly engage in any employment, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.</p>

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150.2 In promoting themselves and their work, **professional accountants should not bring the profession into disrepute** and should be honest and truthful and should not:

- (a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
- (b) Make disparaging references or unsubstantiated comparisons to the work of others.
- (c) Advertise any professional/other facts which are in violation of advertisement guidelines issued by the Council* of the Institute from time to time.

115.1 A1 **Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.**

R115.2 When promoting himself and his work, a professional accountant shall not bring the profession into disrepute. A professional Accountant is required to conduct his affairs in a manner **that he remains outside the boundaries of professional and other misconduct**. A professional accountant shall be honest and truthful and shall not make: (a) Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or (b) Disparaging references or unsubstantiated comparisons to the work of others. (c) Any direct or indirect measures to advertise any professional/other facts which are in violation of Advertisement Guidelines issued by the Council of the Institute from time to time.

The revised Code has directly focused on the need for complying with the principle of Professional Behaviour whereas the existing Code is not giving particular emphasis on compliance with the principle of Professional Behaviour.

The term “action” has been replaced by the term “**Conduct**” in the revised Code. Conduct means a person’s behaviour, whereas action connotes doing things, often for a particular purpose.

The revised Code has explained the conduct of the accountant by making it explicitly clear that it will cover “shall not knowingly engage in any employment, occupation or activity” that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles. In other words, this principle has also mandatorily covered compliance of other fundamental principles.

Further, an important insertion of the term “**not knowingly**” before “**engage in any employment...**” , has provided the professional accountant a greater leverage.

The reasonable and informed

third party test is a consideration by the professional accountant as to whether the same conclusions would be drawn by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant but would possess the relevant knowledge and experience to understand and evaluate

the appropriateness of the accountant’s conclusions in an impartial manner.

Important insertion in the revised Code has been made, i.e., “A professional Accountant is required **to conduct his affairs in a manner that he remains outside the boundaries of professional and other misconduct.**”

In other words, a professional accountant needs to be cautious while conducting his affairs so that he is not brought within the ambit of professional and other misconduct.

Revised Code of Ethics requires :

- A professional accountant shall comply with each of the fundamental principles.
- The fundamental principles of ethics establish the standard of behaviour expected of a professional accountant.
- The conceptual framework establishes the approach which an accountant is required to apply to assist in complying with those fundamental principles.
- Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.
- A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, with:

• Others within the firm or employing organization.

• Those charged with governance.

• Institute

• Legal counsel.

The term “action” has been replaced by the term “Conduct” in the revised Code. Conduct means a person’s behaviour, whereas action connotes doing things, often for a particular purpose.

THE CONCEPTUAL FRAMEWORK

The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles.

Section 120 sets out **requirements and application material**, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest.

The conceptual framework specifies an approach for a professional accountant to:

- Identify threats to compliance with the fundamental principles;
- Evaluate the threats identified; and
- Address the threats by eliminating or reducing them to an acceptable level.

The revised Code has inserted a specific section as mentioned above on “The Conceptual Framework” wherein it has laid out the entire approach to be followed by a professional accountant thereby guiding and assisting him by **specifying requirements and application material** to deal with his professional assignments. Though the existing Code has the conceptual framework for

the professional accountants in service and in practice yet is completely silent on the **requirements and application material** to deal with the professional assignments.

“When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise.”

The revised Code has categorically specified when applying the conceptual framework, the professional accountant shall:

- Exercise professional judgment;
- Remain alert for new information and to changes in facts and circumstances; and
- Use the reasonable and informed third party test.

Exercise of Professional Judgment

120.5 A1 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, including the nature and scope of the particular professional activities, and the interests and relationships involved. In relation to undertaking professional activities, the exercise of professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.

120.5 A2 An understanding of known facts and circumstances is a prerequisite to the proper application of the conceptual framework. Determining the actions necessary to obtain this

understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment.

120.5 A3 In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant’s expectations.
- The accountant’s expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The information provides a reasonable basis on which to reach a conclusion.
- The accountant’s own preconception or bias might be affecting the accountant’s exercise of professional judgment.
- There might be other reasonable conclusions that could be reached from the available information.

Reasonable and Informed Third Party

Reasonable and informed third party test has already been explained in preceding paragraphs.

As expressed in the preceding paragraphs that the revised Code besides being explanatory and illustrative in coverage, has laid out the steps and the manner by which a professional accountant

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can identify, evaluate and address the threats rather than merely mentioning about identification, evaluation and addressal of the threats in the existing Code.

Identifying Threats

The Requirement in the revised Code is that the professional accountant shall identify threats to compliance with the fundamental principles.

The **Application material** for identifying threats covers an understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with

It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm,

or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles.

It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

The meaning and definition of threats have been totally revamped in the revised Code and a comparison has been drawn with the existing Code with respect to different types of threats as under:

CODE OF ETHICS, 2009	CODE OF ETHICS, 2019	Remarks
Self-interest threats may occur as a result of the financial or other interests of a professional accountant or of a relative*;	<p>Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant's judgment or behaviour</p> <p>Exemplifying following situations wherein financial/other interest will inappropriately influence a professional accountant's judgement or behaviour:</p> <ul style="list-style-type: none"> • A professional accountant having a close business relationship with a client. In such a scenario, the member's judgement will get impacted or biased. • A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm. If a member gets entangled in this situation, his behaviour will inappropriately get influenced. 	<p>A professional accountant's judgment" will be inappropriately influenced because of financial or other interest.</p> <p>Revised Code is very categorical since it has explicitly suggested that self interest threat will affect the professional accountants judgement.</p>
Self-review threats may occur when a previous judgment needs to be re- evaluated by the professional accountant responsible for that judgment;	<p>Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organisation, on which the accountant will rely when forming a judgment as part of performing a current activity.</p> <p>Certain situations have been illustrated as under-</p>	<p>Existing Code mentions that threat may occur when a previous judgement needs to be re-evaluated whereas revised Code categorically states that a professional accountant will not appropriately evaluate the results of a previous judgment made. It also covers judgement made by another individual within the accountant's firm or employing organisation whereas the existing Code is silent on this aspect.</p>

	<ul style="list-style-type: none"> • A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems. • A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement. <p>In afore stated scenarios, the professional judgement of the member will get jeopardised.</p>	
<p>Advocacy threats may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised</p>	<p>Advocacy threat – the threat that a professional accountant will promote a client’s or employing organisation’s position to the point that the accountant’s objectivity is compromised;</p> <p>Few situations have been exemplified as under-</p> <ul style="list-style-type: none"> • A professional accountant promoting the interests of, or shares in, a client. • A professional accountant lobbying in favour of legislation on behalf of a client. <p>The afore stated situations will lead to professional accountant’s objectivity getting compromised.</p>	<p>The revised Code has explicitly talked about promoting a client’s or employing organisations position whereas the existing Code is silent about the same.</p>
<p>Familiarity threat may occur when, because of a relationship, a professional accountant becomes too sympathetic to the interests of others.</p>	<p>Familiarity threat – the threat that due to a long or close relationship with a client, or employing organisation, a professional accountant will be too sympathetic to their interests or too accepting of their work;</p> <p>Certain situations have been illustrated as under:</p> <ul style="list-style-type: none"> • A professional accountant having a close or immediate family member who is a director or officer of the client. • An audit team member having a long association with the audit client. <p>In the aforesaid circumstances, member will be too sympathetic to the client’s interests and this in turn will affect his professional judgement/behaviour.</p>	<p>The revised Code has replaced the term “relationship” appearing in the existing Code with “long or close relationship with a client or employing organisation”.</p>
<p>Intimidation threat may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.</p>	<p>Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.</p> <p>Few situations have been exemplified as under-</p> <ul style="list-style-type: none"> • A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter. 	<p>“May be” has been replaced with “will be”, giving it an assertive meaning.</p> <p>Clarity is missing in the existing Code as it mentions that a professional accountant may be deterred from acting objectively by threats, actual or perceived”</p>

	<ul style="list-style-type: none"> A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment. <p>The afore stated situations will deter the member from acting objectively.</p>	<p>The revised Code has categorically explained actual or perceived pressures by including attempts to exercise undue influence over the accountant.</p>
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Evaluating Threats

The requirements while evaluating threats is when the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

The revised Code has guided the accountant as to how by using the reasonable and informed third party test, come to a conclusion that the fundamental principles have been complied with.

The Code has also explained the **factors relevant in evaluating the level of threats which are as under:**

- The consideration of qualitative as well as quantitative factors is relevant in the professional accountant's evaluation of threats, as is the combined effect of multiple threats, if applicable.
- The existence of conditions, policies and procedures might also be factors that are relevant in evaluating the level of threats to compliance with fundamental principles.

Examples of such conditions, policies and procedures include:

- Corporate governance requirements.

- Educational, training and experience requirements for the profession.
- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behaviour.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

The aforesaid conditions, policies and procedures might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- The client and its operating environment; and**
- The firm and its operating environment.**

The professional accountant's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

The Client and its Operating Environment

The professional accountant's evaluation of the level of a threat might be impacted by

whether the client is:

- An audit client and whether the audit client is a public interest entity;
- An assurance client that is not an audit client; or
- A non-assurance client.

For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.

The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. **Few situations have been exemplified as under:**

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices

in tendering non-assurance engagements.

- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

The Firm and its Operating Environment

A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment.

Certain situations have been illustrated as under:

- Leadership of the firm that promotes compliance with the fundamental principles

and establishes the expectation that assurance team members will act in the public interest.

- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.

The revised Code also requires if the professional accountant becomes aware of **new information or changes in facts and circumstances that might** impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

Examples of new information or changes in facts and

circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

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The **application material** for consideration of new information or changes and facts in circumstances requires an accountant to remain alert throughout the professional activity

If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat.

While Addressing Threats, the revised Code requires if the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied

to reduce the threat to an acceptable level.

Safeguards

Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Safeguards vary depending on the facts and circumstances and the **examples of safeguards to address threats in specific circumstances include:**

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team, review the work performed or advise as necessary might address a self-review threat.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.

The requirement in the revised Code is that the professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

Conclusion : The five fundamental principles stand as the everlasting and essential guiding lights to the ethical behaviour. The paramount responsibility of the professional accountant is to abide by the fundamental principles and take all feasible safeguards to overcome obstacles to compliance. And certainly, the comprehensive aim of ethical behaviour is that professional accountants act, and are seen to act in the public interest. However, a sound Code of ethics cannot be simply a statement of fundamental principles. It must specialise and guide their application depending on tasks, roles and circumstances. The conceptual framework requires a professional accountant to be vigilant of such facts and circumstances which create threats to compliance with the fundamental principles. It is mandatorily required from a professional accountant to comply with the fundamental principles and also follow conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. In this manner, he would meet his foremost responsibility to act in the Public Interest.

Mahatma Gandhi once said “Morality is the basis of things and truth is the substance of all morality”. ■