

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, 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:
- (a) Integrity: A professional accountant should be straightforward and honest in all professional and business relationships.
 - (b) Objectivity: A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional judgments.
 - (c) Professional Competence and Due Care: A professional accountant should act diligently and in accordance with applicable technical and professional standards while providing professional services.
 - (d) 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.
 - (e) 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. It is a framework that 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 fundamental principles, to evaluate their significance and, if such threats are other than clearly insignificant then to apply safeguards to eliminate them or reduce them to an acceptable level such that compliance with the fundamental principles is not compromised.

* Contributed by the Ethical Standards Board of the ICAI

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Q. Can the goodwill of a proprietary firm of Chartered Accountant after his death be sold/transferred to another eligible member of the Institute?

- A. Yes, the Council of the Institute considered the issue whether the goodwill of a proprietary firm of Chartered Accountant can be sold/transferred to another eligible member of the Institute, after the death of the proprietor concerned and came to the view that the same is permissible. Accordingly, the Council passed the following resolution with a view to mitigate the hardship generally faced by the families after the death of such proprietors, subject to following conditions:
- (a) in respect of cases where the death of the proprietor concerned occurred on or after 30.8.1998. Provided such a sale is completed/effectuated in all respects and the Institute's permission to practice in deceased's proprietary firm name is sought within a year of the death of such proprietor concerned. In respect of these cases, the name of the proprietary firm concerned would be kept in abeyance (i.e. not removed on receipt of information about the death of the proprietor as is being done at present) only up to a period of one year from the death of proprietor concerned as aforesaid.
 - (b) in respect of cases where the death of the proprietor concerned occurred on or after 30.8.1998 and there existed a dispute as to the legal heir of the deceased proprietor. Provided the information as to the existence of the dispute is received by the Institute within a year of the death of the proprietor concerned. In respect of these cases, the name of proprietary firm concerned shall be kept in abeyance till one year from the date of settlement of dispute.
 - (c) in respect of cases where the death of the proprietor concerned had occurred on or before 29th August, 1998 (irrespective of the time lag between the date of death of the proprietor concerned and the date of sale/transfer of goodwill completed/to be completed). Provided such a sale/transfer is completed/effectuated and the Institute's permission to practice in the deceased's

proprietary firm name is sought for by 28th August, 1999 and also further provided that the firm name concerned is still available with the Institute."

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 activities that may represent a conflict of interest/notifying all known relevant parties where the professional accountant is acting for two or more parties in respect of a matter, giving rise to conflict of interest and obtaining their consent in such circumstances.
- 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. ■