

Chapter - 19 "Professional Ethics and Liabilities of Auditor"

- (i) Overview of Code of Ethics: (A) Division of Code of Ethics:
- Part 1
 - Part 2
 - Part 3
 - Part 4A and 4B

(B) Structure of the Code of Ethics:

Code contains sections which address specific topics. Sections are structured as:

- (i) Introduction
- (ii) Requirements
- (iii) Application Material.

Fundamental Principles to be followed by an Accountant: 5 Principles

- (1) Integrity: A professional accountant should be straight forward and honest in all his professional and business relationships.
- (2) Objectivity: No compromise in professional and business judgements because of biasness, conflict of interest and undue influences.
- (3) Professional Competence and Due Care: A professional accountant has a continuing duty to maintain professional knowledge and skills to ensure compliance of Technical and Professional Standards. A Professional Accountant shall act diligently.
- (4) Confidentiality: A Professional Accountant should respect confidentiality of information acquired in course of professional and business relationships.
- (5) Professional Behaviour: A Professional Accountant shall comply with all relevant laws and regulations and should avoid any action that discredit the profession.

Compliance with the Fundamental Principles: (Sec. 110 of Code of Ethics)

A Professional Accountant shall comply with each of the fundamental Principles. If a professional accountant face a situation in which compliance of one fundamental principle conflicts with complying with other fundamental Principles, he may consider consulting with:

- ✓ (a) Others within the firm;
- ✓ (b) TCWG
- ✓ (c) ICAI
- ✓ (d) Legal Counsel.

Note: Such consultation does not relieve the accountant from responsibility to exercise professional judgement to resolve the conflicts; or to disassociate from the matter creating conflict.

Sec. 110 of Code of Ethics — Professional Accountant shall comply with each of the Fundamental Principles (I, O, PCDC, C, PB)

Professional Accountant Identify a threat ^① in compliance of fundamental Principles

Evaluate whether such threat is at a acceptable level.

↓
(A) Threats are at Acceptable level

↓
O.K.

↓ (B) Threats are not at a acceptable level

↓ Address the threats by:

(i) Eliminating them; or

(ii) Reduce them to an acceptable level

↓ through

(a) Eliminating the circumstances that are creating the threats; or

(b) Applying necessary safeguards, where applicable; or

(c) Declining or ending the specific professional activity.

✓ Threats involved in compliance of Fundamental Principles: - 5 threats -

- (i) Self Interest Threat: Threats that a financial or other interest will inappropriately influence a professional accountant's judgement or behaviour.
- (ii) Self Review Threat: Threat that a professional accountant will not appropriately evaluate the results of a previous judgement made by him.
- (iii) Advocacy Threats: Threats that a professional accountant will promote a client's position to the extent that accountant's objectivity is compromised.
- (iv) Familiarity Threat: Threat that arises due to a long association with a client due to which a professional accountant becomes too sympathetic to the interests of client.
- (v) Intimidation Threat: Threats that a professional accountant will be deterred from acting objectively because of actual or perceived pressure.

Circumstances that create threats:

— From Book —

(A) Professional Accountants in Practice

(B) Professional Accountants in Service (H.W.)

(i) Self Interest → Direct Financial Interest;

Quoting low fees;

Close Business Relationship;

Access to Confidential Information;

Discovering a Significant Error;

(ii) Self Review → Issuing Assurance Report on effectiveness

of operation of financial system, (implemented by same person)

→ Issuing Assurance Report on records

when original data is being prepared by same person

(iii) Advocacy

→ Dealing with shares

→ Acting as an advocate

→ Lobbying in favour of legislation.

(iv) Familiarity

→ Family member → director/officer

→ long association with client.

(v) Intimidation

→ Threatened from dismissal

→ Pressure to agree with client judgement

→ Stopping planned promotion

→ Making public of gifts accepted

Safeguards to be applied to eliminate threats!

(i) Assigning additional time and qualified personnel to required task - will address Self Interest Threat.

(ii) Having an appropriate reviewer who was not a member of the team, to review the work performed will address Self Review Threat.

(iii) Using different partners and engagement team with separate reporting lines for non assurance services to audit client will address Self Review Threat; Advocacy threat; Familiarity threat.

(iv) Involving another firm to perform or reperform part of engagement will address All threats.

(v) Separating team when dealing with matters of confidential nature will address Self Interest Threat.