

ETHICAL STANDARDS

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FUNDAMENTAL PRINCIPLES

Fundamental Principles

➤ Five Fundamental Principles

- ✓ Integrity
- ✓ Objectivity
- ✓ Professional Competence and Due Care
- ✓ Confidentiality
- ✓ Professional Behaviour

Fundamental Principles

- A Professional Accountant shall comply with each of the fundamental principles.
- Fundamental Principles establish the standard of behavior expected of a professional accountant.
- Resolving conflict with complying with the fundamental principles
- Documentation

Fundamental Principles

➤ Integrity

- ✓ Accountant to be straight forward and honest
- ✓ Integrity implies fair dealing and truthfulness
- ✓ Accountant not to associate himself with the client if reports returns, communication or information -
 - Contains a materially false or misleading statements;
 - Contains statements or information provided negligently; or
 - Omits or obscures required information where such omission or obscurity would be misleading.

➤ Resolution of Conflict – Modified report or Dis-association with the information.

Fundamental Principles

➤ Objectivity

- ✓ Accountant not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others.
- ✓ Shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

Fundamental Principles

➤ Professional Competence and Due Care

- ✓ This principal requires accountant to –
 - Attain and maintain professional knowledge and skill
 - Act diligently and in accordance with applicable technical and professional standards and exercise sound judgement in applying professional knowledge.
 - Continuing awareness and understanding of relevant technical, professional and business development
 - Act in accordance with the requirement of assignment carefully, thoroughly and on a timely basis
 - Have appropriate training and supervision of the professional staff.
 - Make client aware of the limitations inherent in the services or activities.

Fundamental Principles

➤ Confidentiality

- ✓ Be alert to the possibility of inadvertent disclosure
- ✓ Maintain confidentiality of information with the firm
- ✓ Maintain confidentiality of information of prospective clients or employing organization.
- ✓ Not to disclose information without, proper and specific authority, unless it is a legal or professional duty.
- ✓ Not to use confidential information for the personal advantage or for the advantage of a third party.
- ✓ Not to use or disclose information even after the relationship has ended.
- ✓ Ensure the staff also complies with above conditions.

Fundamental Principles

➤ Confidentiality ... Contd.

- ✓ Information may be disclose to a third party if –
 - required by law
 - authorized by the client
 - Professional duty or right to disclose
 - peer review
 - Inquiry / Investigation by professional / regulatory body
 - Protect professional interest in legal proceedings
 - comply with technical or professional standards

Fundamental Principles

➤ Confidentiality ... Contd.

- ✓ Factors to be considered while disclosing confidential information –
 - Whether interest of any party would be harmed
 - Whether relevant information is known and substantiated
 - Type of communication and to whom addressed
 - Whether recipient are appropriate
- ✓ Continue to comply with principle of confidentiality even after the end of relationship or while acquiring the new clients.

Fundamental Principles

➤ Professional Behavior

- ✓ Not to engage in activity that impairs the integrity, objectivity or good reputation of the profession
- ✓ Professional accountant shall be honest and truthful and shall not make -
 - Exaggerated claims
 - Disparaging references or unsubstantiated comparisons
 - Violate Advertisement Guidelines

Reasonable and Informed Third Party

- ✓ The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusion would likely be reached by reasonably & informed third party.
- ✓ The 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.



THREATS TO COMPLIANCE WITH FUNDAMENTAL PRINCIPLES

Threats

- ✓ Threats to compliance with fundamental principles require understanding of the facts & circumstances including professional activities, interest and relationship that might compromise compliance with the principles.

Threats

- ✓ Categories of Threats -
 - Self Interest threat
 - Self review threat
 - Advocacy threat
 - Familiarity threat
 - Intimidation threat

Threats

✓ Self Interest Threat

- Accountant holding a financial interest in, or receiving a loan or guarantee from the organization.
- Participating in incentive compensation arrangements offered by the organization.
- Accountant having access to corporate assets for personal use.
- Accountant being offered a gift or special treatment.

Threats

✓ Self Review Threats

- Determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- Providing litigation support / legal services where outcome will have material effect on financial statement on which auditors expresses and opinion.

Threats

- ✓ **Advocacy Threats**

- Opportunity to manipulate information in a prospectus.

- ✓ **Familiarity Threats**

- An immediate or close family member employed by the organization makes decisions that affect the financial reporting of the organization.
 - A long association with individuals influencing business decisions.

Threats

✓ Intimidation Threats

- Accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about :
 - The application of an accounting principle.
 - The way in which financial information is to be reported.
- Influencing decision making process with regard to the awarding of contracts or the application of an accounting principle.

Threats

✓ Acceptable level

- An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

Threats

✓ Evaluating Threats

- 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 factors may be qualitative as well as quantitative
- 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.

Threats

✓ Evaluating Threats ... contd..

- 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 relationship.

Threats

✓ Addressing Threats

- The accountant shall address the threats by eliminating them or reducing them to an acceptable level by –
 - Eliminating the circumstances
 - Applying safeguards
 - Declining or ending the specific professional activity
- In some situations in which threats can only be addressed by declining or ending the specific professional activity, 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.

Threats

✓ Safeguards

- Communication with those charged with governance
- Examples of actions to address threat include -
 - Assigning additional time and qualified personnel.
 - Having an appropriate reviewer who was not a member of the team
 - Using different partners and engagement teams
 - Involving another firm to perform or re-perform part of the engagement
 - Separating teams when dealing with matters of a confidential nature might address a self-interest threat.



Thank you

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