

International Ethics Standards Board for Accountants

Conflicts of Interest

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Conflicts of Interest Project Status

- Task Force provided update to Board at November, 2010 meeting
- Task Force met on December 8-9, 2010 & on January 18-19, 2011
 - Revised description of a COI
 - Considered the structure of Sections 220 & 310
 - Considered the content to be included in Sections 220 & 310

Explanatory language

- Considered the phrase “other than with that party” within the description of a COI
- Agreed to add explanatory language to clarify the parties that can be involved in a COI
 - COIs between professional accountants (PA) & third parties; and
 - Situations where the PA is working for two or more parties whose interests compete or conflict

Description of a COI

- *A conflict of interest arises if, when undertaking a professional activity for a party, a professional accountant has an interest other than with that party that creates a threat to objectivity and may create threats to compliance with other fundamental principles. Such threats may be caused by:*
 - *Conflicts between the interests of two or more third parties for whom the professional accountant undertakes professional activities; or;*
 - *Conflicts between the interests of the professional accountant and the interests of a party for whom the professional accountant undertakes a professional activity.*

Location of description of a COI in the Code

- Part A of the Code
 - Applicable to all PAs
 - High level description
- Parts B & C of the Code
 - Users of the Code would benefit from stand-alone descriptions in each section for easy accessibility;
 - Structure of Sections 220 & 310 would benefit by beginning each section with the description
 - Further developed to reflect specific examples of relationships that cause COIs for PAs in public practice & business

Description of a COI in Part A of the Code

- Located in Section 100 because the description links to all of the fundamental principles
- Agreed COI should have it's own subsection beginning at Paragraph 100.17

Categories of COI & explanatory language

- Considered categories of COIs noting much overlap between various proposed categories
- Explanatory language would serve as two broad categories of COIs
 - High level in Part A of the Code
 - Tailored for Sections 220 & 310 for PAs in public practice and business

Structure of Sections 220 & 310

Structure of Sections 220 & 310

- Agreed in the interest of consistency both sections should be ordered in the same way
- Content order:
 - Description of a COI;
 - Specific Examples of COI;
 - Reasonable and informed third party test in identifying a COI;
 - Identifying and evaluating the significance of a COI; and
 - Management techniques for COIs



Structure of Sections 220 & 310

Content of Sections 220 & 310

- Description of a COI
 - Each section would begin with the description
 - Description of a COI in each section would be modified for PAs in public practice & business
- Specific examples of a COI
 - Follow the description to further explain the broad categories within the description of a COI

Structure of Sections 220 & 310

Content of Sections 220 & 310

- Reasonable & informed third party test
 - Stand alone paragraph for each section following the specific examples
 - PA to consider the situation from a third party's perspective early in the identification process
- Identification & evaluation of a COI
 - To provide techniques to identify and evaluate the threats to fundamental principles
- Management techniques for COIs
 - To provide management techniques for dealing with COIs



Examples of COIs & Section 320

- Examples of COIs for Section 310
 - Task Force presented examples at the November, 2010 meeting
 - Task Force requested examples of COIs for PAs in business
 - Most examples received dealt with undue influence
 - Agreed Section 320 was in need of examination and revision for enhanced guidance on undue influence

Reasonable & Informed Third Party Test

Reasonable & informed third party test

- Stand alone paragraph in Sections 220 & 310 for early identification
 - Stand alone paragraph stresses importance of such considerations
- Used in identifying COIs
- Not used in managing COIs
 - Already mandatory in Code to reduce threats to an acceptable level in the view of a reasonable and informed third party



Reasonable & Informed Third Party

Draft language of Section 310

- *A professional accountant in business shall be alert to all interests and relationships which a reasonable and informed third party would be likely to conclude weighing all the specific facts and circumstances available to the professional accountant at that time, might give rise to a conflict of interest.*

Identification & Evaluation of COIs

Requirements for identifying COIs

- Considered different situations and resources of large firms vs. PAs in business and small firms
- Considered reasonable expectations of gathering information for PAs in business and small firms
- Section 310 to not require a formal process for gathering and storing information
- Section 220 to include requirement to take “reasonable steps to identify” COIs

Management Techniques for COIs

Management techniques for COIs

- Section 220 currently states “one of the following is generally necessary,”
 - Lists three examples of disclosure and consent
- Agreed that disclosure and consent is one possible management technique
- Agreed that techniques will differ in each section to address professional activities of PAs in public practice and business
- Agreed that one or more of the management techniques may serve as appropriate safeguards but none should be mandated



Network firms

- Considered network firms noting:
 - Data protection and other constraints for network firms
 - Paragraph 291.3 creates a standard for evaluating threats to independence when a firm has “reason to believe” that threats are created from a network firm’s interests or relationships
- Agreed that network firms should be addressed in a stand-alone paragraph under “identification & evaluation” paragraph of Section 220 with a “reason to believe” threshold

Inclusion of the Term “Firm”

Section 220 and the term “firm”

- Analyzed whether the term “firm” should be included in Section 220 along with the term “professional accountant in public practice”
- As defined, “professional accountant in public practice” includes the firm

Any questions or comments?

