

# EXPLORING THE IESBA CODE

## Installment 6: Conflicts of Interest



A core responsibility of professional accountants (PAs) is to ensure that the work they do and the decisions they make are conducted in the interest of the client, employer, and the public, rather than on the basis of self-interest. As trusted advisors, PAs are required to properly manage conflicts of interest that arise. They cannot allow a conflict to compromise their professional or business judgment.

### **Conflicts of interest are not, in and of themselves, breaches of the Code.**

PAs are actively engaged in the business community in a wide variety of roles, and this breadth of involvement can sometimes lead to situations where conflicts of interest arise. It is important to recognize, however, that being in a conflict of interest situation does not automatically mean that a PA is in breach of the Code. Conflicts of interest are not always avoidable and can create threats to compliance with the fundamental principles and independence. Such conflicts can be effectively dealt with by applying the conceptual framework to **identify, evaluate, and address threats**.

Conflicts of interest relate most closely to the principle of objectivity. The Code prohibits all PAs from compromising their professional or business judgment because of bias, conflict of interest, or undue influence of others.

### **Perceived conflicts of interest are just as important to address as real ones.**

Perceived conflicts of interest can erode trust and damage the reputation of the PA and the profession overall. To evaluate perceived conflicts of interest, PAs are required to apply the [reasonable and informed third party test](#).



REMAIN ALERT

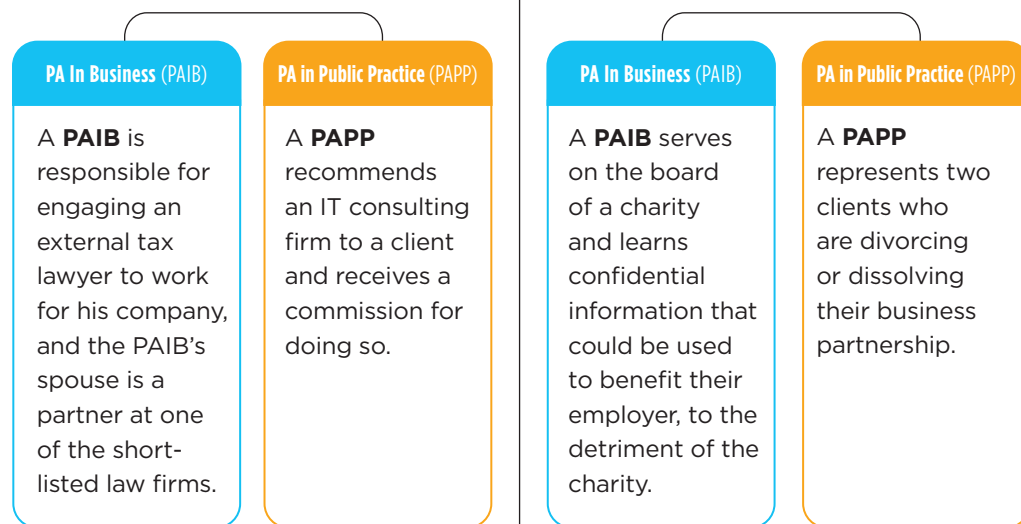
PAs are expected to remain alert to changes in circumstances (such as activities, interests, and relationships) that might create conflicts of interest. This helps ensure that such conflicts are identified and addressed promptly.

## HOW CONFLICTS OF INTEREST SITUATIONS ARISE

PAs typically encounter conflicts of interest either when:

1. **Their own interests are in conflict** with the interests of a client, employer, or other party that the PA is working for.
2. There are **conflicting interests between two or more clients**, employers, and others parties the PA is working for.

For example:



The Code's **conceptual framework** includes specific provisions to help PAs deal with conflicts of interest.

### WHERE TO GET ASSISTANCE?



The topic of conflicts of interest is dealt with in Section **210** for PAIBs, and in Section **310** for PAPPs. See Installments **2**, **3** and **4** for more information on applying the Code's conceptual framework.



The eCode, which is available at [www.IESBAeCode.org](http://www.IESBAeCode.org), is an on-line resource for accountants and other users of the Code. It provides quick and efficient access to the Code, making it easier to use, implement, and enforce.

## APPLYING THE CONCEPTUAL FRAMEWORK TO DEAL WITH CONFLICTS OF INTEREST

Conflicts of interest result in threats to objectivity and (potentially) other fundamental principles. Therefore, PAs need to take reasonable steps to **identify** situations that can result in conflicts. For PAPPs, the identification process must take place before starting a new client relationship and must encompass the audit firm's entire network.

In relation to the **evaluation** of the level of threats created by conflicts of interest, the more directly connected the professional activity or service is to the matter causing the conflict, the more likely it is that the threat is not at an acceptable level.

To **address** a conflict of interest, the PA can either:

- Remove the conflict, perhaps by removing themselves from having any influence over decision-making in the matter;
- Apply safeguards, which often involve restructuring duties or adding impartial oversight; or
- Withdraw from the professional activity.

### Confidentiality Considerations

Disclosing the conflict and getting consent from the affected parties with respect to the actions to be taken is normally necessary, but this can lead to issues with confidentiality. If disclosure is not possible because of confidentiality concerns, special care is needed to manage and document the situation. In this case, it will often be best to eliminate the conflict or withdraw from the professional activity.

### Importance of Documentation and Transparency

Managing conflicts of interest requires a great deal of professional judgment and finesse. Documentation of steps taken and decisions made is extremely important. Appropriate transparency—within the boundaries of confidentiality requirements—can go a long way in dispelling concerns and maintaining trust when addressing a real or perceived conflict of interest.