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# Code of Professional Conduct & Ethics

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**Association of Accounting Technicians  
of Sri Lanka**

(Incorporated under the Companies Act No: 17 of 1982)

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# Code of Professional Conduct & Ethics

## 1. Purpose of the Code of Ethics

Provide a general guide line and a frame work within which AAT members will conduct their work (duties & functions).

## 2. Fundamental Principles

All Members should observe certain fundamental principles in order to achieve the objectives of the profession:

### 2.1 Integrity

Members should be straightforward and honest in performing technician work.

### 2.2 Objectivity

Members should be fair and should not allow prejudice or bias or the influence of others to override objectivity.

### 2.3 Technical Competence

2.3.1 Members should refrain from undertaking or continuing any assignment which they are not competent to carry out unless advice and assistance is obtained to ensure that the assignment is carried out satisfactorily.

2.3.2 Members also have a continuing duty.

- (i) To maintain technical knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent technician services based on up-to date developments in practice, legislation and techniques.

- (ii) To maintain their technical and ethical standards in areas relevant to their work through Continuous Development.

## **2.4 Due Care**

2.4.1 A Member, having accepted an assignment, has an obligation to carry it out with due care and reasonable dispatch having regard to the nature and scope of the assignment.

2.4.2 Special care is required where Members undertake assignments for clients who may have little or no knowledge of accounting and taxation matters.

## **2.5 Confidentiality**

Members should respect the confidentiality of information acquired during the course of performing professional work and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.

## **2.6 Behaviour**

Members should act in a manner consistent with the good reputation of the Association and refrain from any conduct which might bring discredit to the profession.

# **3. Guidance Applicable to All Members**

## **3.1 Objectivity**

3.1.1 The principle of objectivity imposes the obligation on all Members to be fair minded, intellectually honest and free from conflict of interest.

3.1.2 Members serve in many different capacities and should demonstrate their objectivity in varying circumstances. Self-employed Members undertake professional services. Other Members as employees prepare financial statements, perform internal audit services and serve in financial management capacities in the accountancy

profession, industry, commerce, public sector and education. Members also educate and train those who aspire to be members of AAT.

3.1.3 Regardless of service or capacity, Members should protect the integrity of their services, maintain objectivity and avoid any subordination of their judgment by others.

3.1.4 Members need to bear in mind, in this context, the following factors;

- (i) Whatever the nature of the professional services they provide, Members may be exposed to situations which involve the possibility of pressures being exerted on them. These pressures may impair their objectivity, and hence their independence:
- (ii) In dealing with independence, Members must address both;
  - Independence of mind, i.e. the state of mind which has regard to all considerations relevant to the task in hand but no other independence of mind is also referred to as objectivity;
  - Independence in appearance, (or independence that can be demonstrated) i.e. The avoidance of situations inducing so obvious a threat to independence that an informed third party would question the Member's objectivity. Issues of independence in appearance are most likely to arise in relation to undertaking audit or other public financial reporting assignments. These aspects are dealt with in Section 5.2

## **3.2 Competence**

3.2.1 Members should refrain from undertaking or continuing assignments which they are not competent to carry out, unless competent advice and assistance is obtained to enable them satisfactorily to carry out the assignment.

3.2.2 A Member's competence may be divided into two separate phases;

**(i) attainment of competence**

The attainment of professional competence requires specific education, training, assessment or examination in relevant subjects and, whether prescribed or not, a period of relevant work experience in finance or accountancy.

**(ii) maintenance of professional competence**

The maintenance of competence require a continuing awareness and application of developments in the accountancy profession including relevant national and international pronouncements on accounting, auditing and other relevant regulations and statutory requirements.

**3.3 Confidentiality**

3.3.1 Members have an obligation to respect the confidentiality of information about a client's employer's affairs, or the affairs of clients of employers acquired in the course of professional work. The duty of confidentiality continues even after the end of the relationship between the Member and the employer or client.

3.3.2 Confidentiality should always be observed by Members unless specific authority has been given to disclose information or there is a legal, regulatory or professional duty to disclose.

3.3.3 Members have an obligation to ensure that staff under their control and persons from whom advice and assistance is obtained respect the principle of confidentiality.

3.3.4 Confidentiality concerns the matter of usage of information and not just non-disclosure or disclosure. A Member acquiring information in the course of professional work should neither use nor appear to use that information for personal advantage or for the advantage of a third party.

- 3.3.5 Members have access to much confidential information about an employer's or client's affairs, or the affairs of clients of employers, not otherwise disclosed to the public. Therefore, Members should be relied upon not to make unauthorized disclosures to other persons. This does not apply to disclosure of information in order to discharge their responsibilities properly according to the Association's standards.

## **4. Guidance Applicable to Employed Members**

### **4.1 Conflict of loyalties**

- 4.1.1 Employed Members owe a duty of loyalty to their employer as well as to their profession and there may be times when the two are in conflict. An employee's normal priority should be to support his or her organization's legitimate and ethical objectives and the rules and procedures drawn up in support of them. However, an employee cannot legitimately be required to:
- (i) break the law;
  - (ii) breach the rules and standards of their profession;
  - (iii) lie to or mislead (including by keeping silent) those acting as auditors to the employer,
  - (iv) put their name to or otherwise be associated with a statement which materially misrepresents the facts.
- 4.1.2 When Members become aware that their employers have committed an unlawful act which could compromise them, every effort should be made to persuade the employer not to perpetuate the unlawful activity, and to rectify the matter.
- 4.1.3 Differences in view about the correct judgment on accounting or ethical matters should normally be raised and resolved within the employee's organization, initially with the employee's immediate superior, and possibly thereafter, where disagreement about a significant ethical issue remains, with higher levels of management or non-executive directors.

4.1.4 If employed accountants cannot resolve any material issue involving a conflict between their employers and their professional requirements they may, after exhausting all other relevant possibilities, have no other recourse but to consider resignation. An employer may also be influenced in taking the right decision if it is made clear by the Member that it will not be possible to continue as an employee if matter are not corrected. Employees should state their reasons for resignation to the employer but their duty of confidentiality normally precludes them from communicating the issue to others (unless Legally or professionally required to do so).

#### **4.2 Support for Professional Colleagues**

A Member, particularly one having authority over others, should give due weight to the need of the colleagues to develop and hold their own judgment in accounting matters and should deal with differences of opinion in professional way.

#### **4.3 Competence**

A member employed in industry, commerce, the public sector or education may be asked to undertake significant tasks for which he or she has not had sufficient specific training or experience. When undertaking such work the Member should not mislead the employer as to the degree of expertise or experience he or she possesses, and where appropriate expert advice, assistance or training should be sought.

## **5. Guidance applicable to Self-Employed Members**

### **5.1 Introduction**

Members who provide accounting, taxation or related consultancy services on a self-employed basis in Sri Lanka must register with the Association of Accounting Technicians of Sri Lanka.

## **5.2 Independence in Financial Reporting and Similar Roles**

5.2.1 When undertaking, a Registered self-employed person, a person who normally provides contract of services to business entities, and his services employed by any business a member should be independent both in fact and appearance.

5.2.2 The Potential threats to independence include the following;

**\* financial interest in the entity**

(i) resulting from an executive, managerial, or operational involvement in the client's affairs and/or in the preparation of its accounts (a "self" review" threat);

(ii) arising from an emotional commitment to the client or its interest (such as to create a "familiarity" or an "intimidation" threat);

5.2.3. Financial Involvement with or in the affairs of Clients. Financial involvement can arise in a number of ways, such as.

(i) By direct or indirect financial interest.

(ii) By loans to or from the client or any officer, director or principal shareholder of a client company. The self-interest threat arising from outstanding fees is exacerbated when they become equivalent to a loan, and a Member should review the propriety of continuing to act where significant fees have been outstanding for twelve months or more. Special considerations may apply in circumstances involving Individual Voluntary Arrangements (IVAs) or other specific arrangements for payment;

(iii) By holding a financial interest in a joint venture with a client or employee (s) of a client;

(iv) When the receipt of fees from a client or group of connected clients represents a large proportion of the total gross fees of a Member or of the practice as a

whole. The perceived threat grows with the size of the fees and is thus increased by work or services assignment;

- (v) The provision of other services may also give rise to self-review, familiarity, or advocacy threats.

#### **5.2.4. Personal and Family Relationships.**

Personal and family relationships can affect objectivity. There is a particular need to ensure that an objective approach to any assignment is not endangered as a consequence of any personal or family relationship.

#### **5.2.5. Conflicts between Interests of Different Clients**

There is, on the face of it, nothing improper in a Member or practice having two or more clients whose interests may be in conflict. In such a case however the work should be managed so as to avoid the interest of one client being affected adversely.

### **5.3 Commissions**

A Member who receives a commission or other reward in return for the introduction of a client should be aware that if such an introduction is made in the course of a “fiduciary relationship” with the client, the Member will be accountable for the commission or reward to the client. That means that the Member may under common law regimes, be bound to pass over the commission or reward to the client, unless the latter, having been informed of the nature and amount of the commission or reward, agrees that the Member can keep it. A “Fiduciary relationship” between a Member and his or her client will arise;

- Where the member acts as the client’s agent; or
- Where the member gives professional advice to the client so as to give rise to a relationship which the law would regard as one of “trust and confidence”.

## **5.4 Letters of Engagement**

5.4.1. Self-employed Members should ensure that, as a matter of good practice, for each client an engagement letter is issued. The purpose of such a letter is to provide written confirmation of the work to be undertaken and the extent of the Member's responsibilities. Examples of engagement letters are available from the Director of Professional Development. The following features are recommended for inclusion:-

**(i) The nature of the assignment**

The nature of the assignment, the scope of the work to be undertaken and, if appropriate the format and nature of any report which has to be delivered;

**(ii) Timing**

The timing of the engagement, i.e. The date the work is expected to start, (and whether these dates are contingent on the completion by the client or others of information), the duration of the work and the dates on which reports are to be made.

**(iii) Duration**

Whether the assignment is monthly, annual or not recurring and whether the engagement will continue unless specifically terminated by the client;

**(iv) Client's responsibilities**

The client's responsibilities eg. as to the production of information such as records and books, their format and timing. The client should also be advised that, for example, in relation to tax compliance work a Member will only be acting as an agent for the client and that the client is responsible for the tax returns, etc., submitted.

**(v) Detection of irregularities**

That the responsibilities for the detection of irregularities and fraud rest with the client's management and this would normally be outside the scope of the engagement. Nevertheless it should be made clear, under the terms of the engagement letter that, the client is obliged to provide full information to the Member.

**(vi) Basis, frequency and rate of charge**

The basis frequency and rate of charge for services rendered together with the treatment of expenses incurred in connection with the assignment. The incidence of any taxes should also be specified;

**(vii) Ownership and lien**

The ownership of books and records created in the engagement and whether the Member will exercise a lien over such items if fees remain unpaid or are disputed. The Member's policy on retention, destruction and return of records should, if appropriate, be specified.

**(viii) Third parties**

The usage of the Member's work by the client for third parties should be specified and suitable disclaimers employed.

**5.5 Fees**

5.5.1 Members in public practice who undertake professional services for a client assume the responsibility to perform the work with integrity and objectivity and in accordance with the appropriate technical standards. That responsibility is discharged by applying the professional skill and knowledge which Members have acquired and continue to acquire through learning and experience and which Students are in varying stages of acquiring. For the services rendered they are entitled to remuneration.

5.5.2 Professional fees should be fair reflection of the value of the work performed for the client, taking into account.

- (i) the skill and knowledge required for the type of work involved;
- (ii) the level of training and experience of the person/s necessarily engaged on the work.
- (iii) the time necessarily occupied by each person engaged on the work; and
- (iv) the degree of responsibility that the work entails.

5.5.3 Professional fees should normally be computed on the basis of agreed appropriate rates per hour or per day for the time of each person engaged on the work. These rates should be based on the fundamental premise that the organization and conduct of the practice and the services provided to clients are well planned, controlled and managed.

## **5.6 Client's Monies**

5.6.1 A Member in public practice entrusted with monies belong to other should;

- (i) keep such monies separately from personal monies or monies belonging to the practice;
- (ii) use such monies only for the purpose for which they are intended and
- (iii) at all times be ready to account for those monies to any persons entitled to such accounting.

5.6.2 The Member should maintain one or more bank accounts for clients' monies. Such bank accounts may include a general client account into which the monies of a number of clients may be paid.

## **5.7 Changes in a Professional Appointment**

5.7.1 Clients have the right to choose their professional advisers, and to change to others if they wish. Members engaging in practice have the right to choose for whom they act. Nevertheless, it is necessary in the interest of both the

public, and the existing and prospective advisers, that a Member who is asked to act by a prospective client in respect of a recurring reporting assignment, accounting services or taxation compliance work, should communicate with the existing adviser. Likewise, the latter must reply promptly as to any considerations which might affect the prospective adviser's decision whether or not to accept appointment. Where there is no existing adviser, the procedures apply equally to any previous adviser.

## **6. Legal Considerations**

### **6.1 Ownership of Books and Records**

- 6.1.1. The rules concerning the ownership of books and records say they belong to the client and it is important that the members take steps to ensure that the engagement letter covers as far as reasonable possible, their respective rights and responsibilities.
- 6.1.2. In accountancy work the question of ownership will depend on the nature of the work. Accounting records and financial statements prepared for a client belong to the client. A Member's working papers belong to the Member.
- 6.1.3. Letters received by the Member from the client, copies of letters from the Members to the client and notes made by the Members of discussions with the client belong to the member.

## **7. Issued on 15.09.2005**