

In this KLIP, we will cover:

2. Conflicts of Interest

A conflict of interest creates threats to compliance with the principle of objectivity and/or other fundamental principles.

Such threats might be created when:

- (a) A professional accountant provides a professional service relating to a **particular matter for two or more clients, whose interests with respect to that matter are in conflict**; or
- (b) The **interests** of a professional accountant with respect to a **particular matter** and the **interests of the client for whom the accountant provides a professional service relating to that matter are in conflict**.

A professional accountant shall **not allow** a conflict of interest to **compromise** professional judgement.

Examples of circumstances that might create a conflict of interest include:

- 1) Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- 2) Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- 3) Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- 4) Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest.
- 5) Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.

What are the steps to identify conflicts of interests?

Before accepting a new client relationship, engagement, or business relationship, a professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest and so the threat to compliance with one or more of the fundamental principles. Such steps shall include:

- (a) Identifying the nature of the relevant interests and relationships between the parties involved;
- (b) Identifying the service and its implication for relevant parties.

An effective identification process will assist a professional accountant to take reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept and throughout the engagement. Therefore, the earlier an actual or potential conflict of interest is identified, the greater chances of the accountant being able to address the threat.

A professional accountant shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement and if the firm is a member of a network, a professional accountant shall consider conflicts of interest that might exist or arise due to a network firm.

We will continue further on conflict of interest in our next KLiP.

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