

CUSTODY OF CLIENT'S ASSETS

In this KLiP, we will go through a case study to understand the concept of what we learnt in the earlier KLiP.

To facilitate in the education and training of accountants, the Institute of Chartered Accountants India (ICAI) has shared a case that demonstrates a breach of the fundamental principles, which we will be discussing below.

Misappropriation of Asset

This touches on how a Professional Accountant (PA) who was penalised on the grounds of breaching professional behaviour while dealing with the client's money.

Facts of the case:

As per IFAC, in many jurisdictions, a PA is expected to bank any money received from clients in a separate client account i.e., to segregate the funds received from client by banking it to a separate escrow account.

Analysis:

In this case, a PA recommended his client to make investments in some local companies. He also assured that they would look after the client's matters relating to income tax and would invest in the names of the client and his wife. For these purposes, the client had given the PA a bank draft, cash and a cheque amounting to Rs. 665,000 (or equivalent to about US\$ 9,400) in total over a period of time.

On verification, the client subsequently found that the PA did not invest the money in any company or pay the income tax to the revenue authority in India. Despite the client's repeated requests, the PA had not provided the certificates of investment and receipt for payment of income tax issued by the relevant authority. Hence, a complaint was lodged with the Disciplinary Committee of the ICAI.

The Disciplinary Committee of ICAI which conducted the investigation subsequently found the PA to be guilty of professional misconduct for not keeping the money received from the client in a separate bank account as required by the Code – Custody of client's assets.

Comments/Recommendations:

A professional accountant entrusted with money or other assets belonging to others, shall:

- (a) Comply with the laws and regulations relevant to holding and accounting for the assets;
- (b) Keep the assets separately from personal or firm assets;
- (c) Use the assets only for the purpose for which they are intended; and
- (d) Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to these.

With this we come to the end of the KLiP.