

GUIDELINES ON CUSTODY OF CLIENT ASSETS/MONEY

2023



The Institute of Chartered Accountants of Nepal

Introduction:

The revised edition of the “International Code of Ethics for Professional Accountants 2018” has been revised, restructured and rearranged with an aim to ensure better understanding in regard to subject matter and help the Professional Accountants in identifying, evaluating and addressing associated threats.

The professional Accountants in course of discharging their responsibility are at times asked by their clients to provide among other non-assurance services, to assume the custody of their assets for certain agreed period of time. This service of taking the custody of client’s assets creates self-interest or other threats to compliance with the principles of professional behavior and the objectivity.

Objectives:

The Professional Accountant in Public practice has onerous responsibility to discharge their professional services in the public interest to the clients. However, such services shall not be discharged in any manner that is inconsistent with the Provisions of laws and regulations and which can bring disrepute to the profession.

This Guidelines is aimed to provide further insight to enrich professional Accountants in their understanding of their professional responsibility in the public interest.

Some of the objectives of this Guidelines but not limited to the following are as follows:

The Professional Accountants while assuming custody of the clients’ monies or assets shall:

- Comply with the Fundamental Principles of Section 110 and Conceptual Framework to identify, evaluate and address threats provided in Section 120;
- Holding clients’ monies or assets creates self- interest threats or other threats to compliance of fundamental principles such as professional behavior and objectivity;
- Always remain alert and keep clients’ assets or monies separately from firm’s or personal assets;
- Use clients’ assets or monies for the purpose intended and with the written approval of the clients;
- Always be ready to account for clients’ assets or monies and any incomes if generated such as interest, dividend, etc.; and
- Comply with the laws and regulations of the local jurisdiction relevant to assuming and accounting for such assets.

Requirements of the Code of Ethics:

The Professional Accountants shall assume custody of clients' assets or monies in accordance with provisions of laws and regulations of the local jurisdiction and also in conformity with the conditions mentioned in the engagement assignment.

While assuming custody of clients' assets or monies, the Professional Accountants shall:

- make enquiries about the sources of such assets; and
- verify whether all legal and regulatory requirements are appropriately complied with.

Such enquiry about the sources of such assets will reveal and confirm whether the assets are legally earned by the clients or are earned through illegal activities such as money laundering, drug or human trafficking or even tax evasion etc.

Verifying compliance of legal or regulatory requirements will ensure whether any provisions of the laws and regulations are breached or violated such as under or over invoicing of import or export of goods and services or banking or securities (Security Board of Nepal) regulatory requirements are breached by not having submitted the KYC documents etc.

After taking custody of clients' asset or monies:

After taking the custody of clients' assets or monies the professional Accountant shall ensure that:

- all provisions of laws and regulations are appropriately complied with;
- clients' assets are kept separately and not mixed with personal or firm's assets;
- such assets of the clients will be used as intended by the client or in accordance with the terms and conditions of the engagement assignments; and
- books of accounts are appropriately maintained at all times for the safe custody of client's assets along with any incomes or gains, dividends etc. accrued or received thereof.

Assuming safe custody of clients' assets:

Clients' assets may be in the form of fixed assets, current assets such as money, collectable debtors, recoverable, inventories, bank balances, short or long term investments etc.

Before assuming clients' assets, the Professional Accountant shall verify whether the local laws and regulations allow the Professional Accountants to assume these assets and whether these assets are earned by clients in legal way.

About moveable fixed assets:

Moveable fixed assets include vehicle, computer equipment, furniture, equipment etc. These assets are embedded with many vulnerable risks like risk of fire, burglary, decaying during the period of custody etc.

The Professional accountants shall verify and evaluate risks associated thereto and then decide whether Professional accountant can provide the safe custody to these assets, if not, then decline the clients' engagement.

Investment in short or long term securities and bank deposits:

The professional Accountant shall first verify and evaluate the risks associated as follows:

- Whether local laws and regulations permit to assume clients' such investments by Professional accountants?
- Whether local regulatory authorities such as banks and financial institutions, Security Board of Nepal or Stock exchange etc. permit to assume the custody by Professional Accountant and also to receive the incomes or return on such investment by the Professional Accountant?
- If permitted to assume the custody of such investments, then proceed to fully comply with regulatory the requirements;
- Collect the returns like interest income, dividend, bonus etc.;
- Shall not mix up these assets or their incomes with Professional accountant or firm' own incomes or assets; and
- maintain up –to- date appropriate accounts and records to be made available with all up-to-date information to clients on regular basis.

Cash and bank balances:

- The professional Accountant shall first verify and evaluate the risks associated as follows:
- whether local laws and regulations permit to assume cash and bank balances of the clients' in the name of Professional accountant?
- Verify the legality of earning of cash and bank balances of the clients and if found legal and also permitted by local laws and regulations, regulatory authorities and bank and financial institution then proceed to assume the custody; if not decline the engagements.
- If permitted to assume the custody of cash and bank balances, then proceed to provide safe custody of such assets but shall not mix up with the Professional accountant or firm's assets;

- make legal declaration that these assets are owned by the clients and the professional accountant has only professional services by assuming the safe custody of clients' such assets;
- open and operate bank account in the name of client as permitted and directed by the local regulatory authorities;
- collect client's monies or income earned on bank deposits such as interest, dividend on securities and other recoverable and deposit them in time into the clients' bank accounts;
- in case of foreign currency if any received then verify the source of income and if found legal then open a separate foreign currency bank account in the name the clients and deposit it in time;
- Professional accounts shall obtain monthly bank statement and reconcile them within seven days of the succeeding month on regular basis;
- In case of occurrence of any error the professional accountant shall ensure its prompt remedy;
- Before making any disbursement out of these cash or bank balances the Professional accounts shall ensure that such disbursements are having prior approval of the clients;
- In case of disbursement of Professional accountant's fees and expenses if any, the professional accountant shall ensure that these disbursements are having prior approval of the client and disbursed time;
- maintain up-to-date appropriate accounts and records to be made available with all up-to-date information to clients on regular basis;
- accounts and records maintained shall be preserved for the period as required by the local laws and regulations and the engagement assignments and also be made available for inspection if any at their requirement in time.

Other assets or inventories:

Custody of other assets may include debtors or other collectable current assets etc. in such condition, the Professional Accountant evaluate the firm's capability whether the Professionals Accountant or the firm can ensure safety to the clients' inventories and also maintain up-to-date and appropriate inventory accounting, if not decline the engagement.

Similarly, the Professional Accountant should evaluation of risk and capability of the firm in regard to the accounting and collectability of the debtors or other recoverable. If the finding of evaluation is not positive in regard to capability to collect and also maintain the up-to-date accounting of such debts or other recoverable, in that case the Professional Accountant shall decline the engagement.

Before assuming clients' assets, the Professional Accountant shall verify whether the local laws and regulations allow the Professional Accountants to assume these assets and whether these assets are earned by clients in legal way.

After assuming the custody of such current assets the professional Accountant shall adopt the similar procedure as aforesaid and such assets or their collection shall not be mixed up or used in other manner than agreed in the engagement assignments. The professional Accountant shall ensure:

- safety from possible risks such as fire, burglary etc.;
- up-to- date maintenance of appropriate accounting;
- not to mix up with firm's assets or use in firms' money; and
- submit report on their status on periodical basis.

Effective Date :

This Guideline will continue to become effective as of 17 July 2023 when Handbook of the Code of Ethics for Professional Accountants including International Independence Standards 2023 will be effective.