

**Webinar on
ICAI Code of Ethics 2020-
Important Practical Aspects**

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Code of Ethics

- ICAI being member of International Federation of Accountants (IFAC) has considered the Ethics standards issued by International Ethics Standards Board for Accountants (IESBA) while framing Code of Ethics for CAs.

ICAI Code of Ethics, 2019 issued on 4th February, 2019 as a Guideline of the Council. It is based on International Ethics Standards Board for Accountants (IESBA) Code of Ethics, 2018 edition.

- It is effective from **1st July, 2020**
- Earlier ICAI Code of Ethics, 2009 had two Parts Part-A and Part – B.
- ICAI Code of Ethics , 2019 (available on website) is the revised version of Part-A of the ICAI Code of Ethics, 2009 and it is now called '**Volume- I**'.
- Revised version of Part-B of ICAI Code of Ethics, 2019 has been passed by the Council. It is now called as '**Volume-II**'. (available on website)
- Updated relevant Disciplinary Case laws being issued as Code of Ethics '**Volume-III**' - (available on website)

General Application of Code – Fundamental Principles

A professional accountant is required to comply with the following fundamental principles:

- (a) Integrity**– Being straightforward and honest in all professional relationships.
- (b) Objectivity** – Not allow bias, conflict of interest or undue influence of others to override professional judgments.
- (c) Professional Competence and Due Care**– Maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques
- (d) Confidentiality**– The confidentiality of information acquired - should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and employment relationships should not be used for the personal advantage of the professional accountant or third parties.
- (e) Professional Behaviour**– Should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Threats in Compliance of Fundamental Principles & Safeguards for Threats

Threats :

- (a) **Self-interest threats**, which may occur as a result of the financial or other interests of a professional accountant or of a relative
- (b) **Self-review threats**, which may occur when a previous judgment needs to be re- evaluated by the professional accountant responsible for that judgment
- (c) **Advocacy threats**, which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised
- (d) **Familiarity threats**, which may occur when, because of a relationship, a professional accountant becomes too sympathetic to the interests of others
- (e) **Intimidation threats**, which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.

Safeguards :

- (A) **Safeguards created by the profession, legislation or regulation.**
- (B) **Safeguards in the work environment –**
 - Firm wide safeguards
 - Engagement-specific safeguards
 - Safeguards within the client's systems and procedures

Code of Ethics – Volume – II – Coverage

➤ Important Ethical Aspects covered in Sections in CA Act.

Section 2 : Members who are deemed to be in Practice

Section 6 : Significance of the Certificate of Practice

Section 7 : Practising Member is prohibited to use designation(s) other than 'Chartered Accountant'

Section 8 : Disabilities for the purpose of membership

Section 20 : Removal from the Register

Section 21 : Procedure in Inquiries for Disciplinary Matters relating to misconduct of the members.

Section 22 : Conduct of the members in any other circumstances

Section 24 : Penalty for falsely claiming to be a Member etc.

Section 25 : Companies not to engage in Accountancy

Section 26 : Unqualified persons not to sign documents

Section 27 : Maintenance of Branch Offices

➤ Schedule-I and Schedule-II of CA Act.

➤ CA Regulations 1988.

➤ Accounting and Auditing Standards

- Statements , Standards and Guidance Notes.

➤ Council Guidelines/ Announcements

➤ Self Regulatory Measures recommended by the Council

➤ Announcements/Clarifications by ESB

Chartered Accountant in Practice

- A Chartered Accountant can be either in Practice or can be engaged in occupation otherwise than in Practice.
- Section 2(2) of CA Act has defined the term “to be in Practice” by enumerating the activities in which a Member engages himself/herself. These activities are –
 - Practice of accountancy or
 - Auditing or verification of financial transactions, books, accounts or records or
 - Preparation, verification or certification of financial accounting and related statements or
 - Services or assistance in or about matters of principle or detail relating to accounting procedure or the recording, presentation or certification of financial facts or data or
 - Such other services as prescribed Council.
- Activities prescribed by Regulation 191 of CA Regulations –

A liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matters or can take up an appointment made by the Central Government or a State Government or a court of law or any other legal authority or acts as a Secretary.
- Further the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of “Management Consultancy and other Services” and under this category, the Council has from time to time listed 28 different types of activities/services which a Chartered Accountant in practice can undertake.

Chartered Accountant in Practice

➤ Management Consultancy and other Services – (Some Important Services)

- Financial management planning,
- Working capital management,
- Preparing project reports and feasibility studies,
- Budgeting, Inventory management,
- Market research and demand studies,
- Cost control and value analysis,
- Management and operational audits,
- Valuation of shares and business and advice regarding amalgamation, merger and acquisition, Acting as Registered valuer under Companies Act, 2013 r.w. Companies (Registered Valuers & Valuation) Rules, 2017.
- Systems analysis and design, and computer related services,
- Acting as advisor or consultant to an issue,
- Investment counselling in respect of securities,
- Acting as registrar to an issue and for transfer of shares/other securities,
- Quality Audit, Environment Audit, Energy Audit,
- Acting as Recovery Consultant in the Banking Sector,
- Insurance Financial Advisory Services under IRDA Act, 1999 including Insurance Brokerage not Including Insurance Agency.
- Insolvency Professional etc.
- **Administrative Services.**

Chartered Accountant in Practice

➤ Administrative Services – Sub Section 602 Of Volume-I

‘Services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.’

Providing administrative services to an audit client does not usually create a threat. Examples of administrative services include:-

- *Word processing services.*
- *Preparing administrative or statutory forms for client approval.*
- *Submitting such forms as instructed by the client.*
- *Monitoring statutory filing dates, and advising an audit client of those dates.*

➤ Section 6 of The Chartered Accountants Act, 1949:

No member of the Institute shall be entitled to practise whether in India or elsewhere unless he has obtained from the Council a certificate of practice

➤ Explanation to Section 2(2):-

An associate or a fellow of the Institute who is a salaried employee of a Chartered Accountant in practice or a firm of such Chartered Accountants or a firm consisting of one or more members of any other professional body having prescribed qualifications shall, notwithstanding such employment, be deemed to be in practice for the limited purpose of the training of articled assistants.

Chartered Accountant in Practice- Engagement in Other Business or Occupation

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule : Clause (11): Engaging business/occupation other than CA :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of chartered accountants unless permitted by the Council so to engage ... Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a Company, (not being a managing director or a whole time director), unless he or any of his partners is interested in such company as an auditor;

Hence Director simpliciter or Independent Director (no involvement in affairs except for Board Meetings) is allowed.

“Director Simplicitor” means an ordinary/simple Director, who is not a Managing Director or Whole time Director and is required only in the Board Meetings of the company and not paid any remuneration except for attending such meetings.

No equivalent of Director Simpliciter in LLPs : A member in practice cannot become a partner/ designated partner (non-working and non-remuneration drawing) in an LLP not carrying out professional work.

Chartered Accountant in Practice- Engagement in Other Business or Occupation

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule : Clause (11): Engaging business/occupation other than CA :-

Regulation 190 A & Appendix 9 to CA Regulations, 1988. (Illustrative list)

General Permission-

- Employment with CA Firm, Private Tutorship, Author of Books & Articles, Holding Public Offices like MLA/MP etc., Honorary Office bearer in Charitable, Educational or Other Non Profit Organisation, Notary, SEM, Valuation of Papers, Paper setters, Examiners etc., part time tutor in coaching organisation of Institute, Editorship of Professional Journals.
- Acting as Loss Surveyor under Insurance Act, Recovery consultant in Banks.
- Owning Agricultural land and carrying agricultural activity.

Special Permission :

- Lecturer in University/Colleges- Total direct teaching hours should not exceed 25 hours.
- Editorship other than Prof Journals, Mg. Director, Whole time Director of Company with no interest.

Chartered Accountant in Practice- Part Time in Practice

- APPENDIX 'H' of Volume – II – Council Resolution
 - Any member engaged in any other business or occupation, in terms of general or specific permission granted shall be deemed to be **'Part Time in Practice'** and shall not be entitled to perform any attest function except in case of the specific or general permission under Regulation 190A so granted –
 - Author of Books & Articles, Holding Public Offices like MLA/MP etc., Honorary Office bearer in Charitable, Educational or Other Non Profit Organisation, Notary, SEM, Valuation of Papers, Paper setters, Examiners etc., part time tutor in coaching organisation of Institute, Editorship of Professional Journals (Not in employment).
 - Holding of Life Insurance Agency Licence for the limited purpose of getting renewal commission
 - Attending classes and appearing for any examination.
 - Any coaching assignment organized by the Institute, its Regional Councils and Branches of Regional Councils.
 - Acting as Loss Surveyor under Insurance Act, Recovery consultant in Banks. (Not in employment)
 - Owning Agricultural land and carrying agricultural activity
 - Engagement as Lecturer in an University, affiliated college, educational institution, coaching organisation, private tutorship, provided the direct teaching hours devoted to such activities taken together do not exceed 25 hours a week.
 - A member who is not entitled to perform attest function shall not be entitled to train articled assistants.

Attest function means services pertaining to audit, review, certification, agreed upon procedures, and compilation, as defined in the Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services published in the July, 2001 issue of the Institute's Journal.

Note : *Part Time Association with Firm (For MEF/CAG Empanelment) does not mean 'Part Time in Practice'*

Chartered Accountant in Practice and HUF

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule : Clause (11): Engaging business/occupation other than CA :-

HUF vis-à-vis member in practice

Position in the Revised Code

Guidance on a member in practice being member / Karta in a HUF doing business incorporated

- Must result from inheritance/succession/partition of the family business
- Only after specific and prior approval of the Council
- Karta cannot have active role
- Attest functions not permitted

Clarification incorporated that a member engaged as Karta of a HUF doing family business, will be within the limit prescribed by Council if he makes investments from the funds pertaining to HUF only, provided, he is not actively engaged in the management of the said business.

Sharing of Fees or Profits

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule

Clause (2) : Sharing Fees or Profits with Non CAs:-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than -

- a member of the Institute or a partner or a retired partner or
- the legal representative of a deceased partner, or
- a member of **any other professional body** or
- with **such other persons having such qualifications** as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

Clause (3): Receiving Share in Profits from Non CA

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute; Provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share commission or brokerage in the fees, with a member of such professional body or other person having qualifications, as is referred to in item (2) of this Part

Sharing of Fees or Profits

Regulation 53 A of Chartered Accountants Regulation 1988 -

Prescribed Professional Bodies :

- a) The Institute of Company Secretaries of India
- b) The Institute of Cost and Works Accountants of India
- c) Bar Council of India
- d) The Indian Institute of Architects
- e) The Institute of Actuaries of India
- f) Professional bodies or institutions outside India whose qualifications relating to accountancy are recognised by the Council.

Prescribed Qualifications :

- a) CS, ICWA, Actuary.
- b) B.E., B.Tech., Architect, Bachelor in Law from a University established by law or an institution recognised by law
- c) Master in Business Administration from Universities established by law or technical institutions recognised by All India Council for Technical Education.

- Hence sharing of Fees or Profits (giving or receiving) is allowed with above persons.
- No bar in sharing of fees if stipulated by any Statute. (e.g. 20% of fees was payable to Govt. under MCS Act)
- Referral Fees amongst members has been now permitted under commentary to Clause 3.

Entering in Partnership

- **Relevant Clause in Schedules to CA Act -**
- **Part – I of The First Schedule**

Clause (4): Entering in Partnership with Persons other than CAs in practice :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he enters into partnership, in or outside India, with any person other than a chartered accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under Clause (v) of sub-Section (1) of Section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships

Persons Qualified- CS, CWA, Actuary, Architect, Advocate, BE, B.Tech, M.B.A. from respective recognised Institutions / University. However, Multi Disciplinary Partnerships not approved by Institute.

Multi Disciplinary Partnerships (MDP)

Despite Regulations 53 A(3) and 53B, MDPs not allowed till Regulators of other professions also allow , and ICAI issues modalities

Solicitations, Advertisements etc.

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule

Clause (5): Securing Professional Business by non permitted means :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he secures, either through the services of a person who is not an employee of such chartered accountant or who is not his partner or by means which are not open to a chartered accountant, any professional business:

Provided that nothing herein contained shall be construed as prohibiting any arrangement permitted in terms of items (2), (3) and (4) of this Part;

Clause (6): Solicitation of Professional Work :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means; Provided that nothing herein contained shall be construed as preventing or prohibiting—

- (i) any chartered accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice;
- (ii) a member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence;

Solicitations, Advertisements etc.

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule

Clause (7): Advertisement of Professional and Other Achievements :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he advertises his professional attainments or services, or uses any designation or expressions other than chartered accountant on professional documents, visiting cards, letter heads or sign boards, unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the Institute of Chartered Accountants of India or of any other institution that has been recognised by the Central Government or may be recognised by the Council;

Provided that a member in practice may advertise through a **write up**, setting out the services provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council;

Advertisement Guidelines, 2008.

“**write up**” means the writing of particulars according to the information given in the Guidelines setting out services rendered by the Members or firms and any writing or display of the particulars of the Member(s) in Practice or of firm(s) **issued, circulated or published by way of print or electronic mode** or otherwise including in newspapers, journals, magazines and websites which include social Networking Websites (in Push as well in Pull mode) in accordance with the Guidelines

Solicitations, Advertisements etc.

Advertisement Guidelines- Write Ups

- It shall be honest and truthful.
- There shall be no exaggerated claims for the services offered by the member or the Firm, or the qualifications or experience of the member or any of the partners or any other person associated with the Firm.
- It must not make any disparaging references or unsubstantiated comparisons to the work of others.
- It should not be of a nature that may bring the profession into disrepute.
- It should not contain testimonials or endorsements concerning Member(s) or names of clients (both the past and present) or the fees charged.
- It should not contain any information about achievements /awards (except the awards given by the Central or State Governments or Regulatory bodies) or any other position held , or accreditation(s) granted by any organisation.
- Monogram of any kind or use of any kind of catch words is not permissible.
- The Membership No./FRN (as may be applicable) is mandatory to be mentioned in the write-up.
- It should not be of font size exceeding 14.
- It must not be violative of any provisions of Chartered Accountants Act, 1949, Chartered Accountants Regulations, 1988, Code of Ethics, 2020 or any Guideline of the Council.
- Passport style photograph of Proprietor/Partners is permitted.

Solicitations, Advertisements etc.

Important Issues/ Decisions

- Press Advertisement for changes in partnership, address etc., giving actual facts- Allowed.
- Giving Public interviews; may be mentioning details about him/ his firm, not leading to Advertisement - Allowed. (should not highlight professional attainments).
- Greeting Cards, Invitations- Generally allowed.
- ICAI Diploma can be mentioned on card; not certificate course.
- Descriptions like ‘ President of ----- Club’ etc. should not be used on Professional stationery.
- Descriptions like ‘established since---’ should not be mentioned on Professional stationery.
- Adjectives like ‘ITAT lawyer’, ‘Finance Consultant’ etc. should not be mentioned on Cards/Letterheads.
- Rowing enquiries/applications for professional work should not be made

Prohibitions -

- Members being Directors in Companies, members of Political parties or CA Cells in the political parties , holding different positions in clubs or other organizations not permitted to mention these positions as they would be violative of Section 7 of the Act

Permissible -

- “Insolvency Professional”, “Registered Valuer”
- Mentioning qualifications of Accounting Institutes which have MRA/MOU with ICAI permitted.

Solicitations, Advertisements etc.

Important Guidelines/ Announcements

- Advertisement Guidelines 2008 available on ICAI website.
- Website Guidelines issued by Council.
- Restriction on manner of entries in Directories.
- Guidelines for use of CA Logo.
- Guidelines on Advertisement by Write ups 14th May, 2008
- Council Guidelines for responding to Tenders issued on 7th April, 2016
- Announcement on use of designation other than 'Chartered Accountant'
- Announcement reg. abstaining from sharing of Firm details intended for comparison of Firms.
- Announcement on Advertising by members in practice engaged in Coaching/Teaching activities in 2017.

All the above Guidelines/ Announcements have been included in Volume-II now , with amendments, discussed herein.

Solicitations, Advertisements etc.

- **Sponsorship** : Member or Firm not permitted to sponsor an event. However, may sponsor an event conducted by a Programme Organizing Unit (PoU) of ICAI , provided it has prior approval of CPE Directorate.
- **Sponsorship** : Members sponsoring activities relating to CSR may mention their individual name with the prefix “CA”. However, the mention of Firm name or CA Logo is not permitted.
- **Advertising of Coaching** : Provisions of ICAI Announcement dt. 18.5.2017 of bar on Advertisement of Coaching /teaching activities incorporated.
- **TV/ Movie Credit** : Member’s / firm’s name allowed in TV/Movie Credits , provided not mentioned differently from other persons.
- **Interview** : Sharing of Firm details during interview not to result in publicity if such detail are given only on a specific question and of factual nature only.
- In Books, Articles and presentations, Professional attainments are prohibited however use of prefix of “CA” or name of Firm permitted.
- **Uploading Educational Videos** : Educational videos may be uploaded by members; however, no reference should be made to the CA Firm wherein he may be a partner/proprietor.

Solicitations, Advertisements etc.

Important Changes (contd.):

- **Advertisements for Celebrations on Silver Jubilee etc.** : Considering the need of interpersonal socialization/ relationship of members through such get together occasions , advertisement for Silver, Golden, Diamond, Platinum or Centenary celebrations of CA Firms may be published in newspaper.
- **illumination of Sign Board** : With regard to the size of sign board for his office that a member can put up, it is a matter in which the members should exercise their own discretion and good taste. Use of glow signs or neon lights on large-sized-boards as is used by traders or shop-keepers would not be proper, while keeping in mind the appropriate visibility and illumination of the sign Board.
- **Appearance on TV / Films and Internet** : Members may appear on television, films and Internet and agree to broadcast in the Radio or give lectures at forums and may give their names and describe themselves as Chartered Accountants. Special qualifications or specialized knowledge directly relevant to the subject matter of the programme may also be given. Firm name may also be mentioned, however, any exaggerated claim or any kind of comparison is not permissible. What he may say or write must not be promotional of him or his firm but must be an objective professional view of the topic under consideration.

Solicitations, Advertisements etc.

Important Changes (contd.):

➤ Network

- Associations with “Network” as a medium of referral of professional work is permissible only if the Network is registered with the Institute, comprising only of Chartered Accountants/ Chartered Accountant Firms, and governed by the Institute’s Network Guidelines.(Announcement on 11.12.2019)
- Reference of Revised Network Guidelines

➤ Logo

- Continuing prohibition on Firm logo
- Reference of permission to use common CA Logo incorporated
- CA Logo Guidelines added as vide a new Appendix

➤ **Advisory on Mentioning Fees in Advertisements issued by Members - (28-04-2020)**

It is clarified that the quantum of Fees (including free of charge), whatsoever, should not be mentioned by members in any Advertisement of services or posting of particulars.

Appointment as Auditors.

Relevant Clauses in Schedules to CA Act -

Clause 9 of Part-I of First Schedule.

Accepting Audit Appointment without ascertaining Company Law compliance :-

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), in respect of such appointment have been duly complied with;

Council Guidelines:

- Ensure that the notice was properly served on the members & outgoing auditors.
- Obtaining copy minutes duly verified & signed by Chairman.

Important Points :

- Proper Appointment Letters, ensuring that it is from proper authority.
- Ensuring compliance with the provisions of Section 225 of Companies act, 1956 stipulated in Clause (9)* on the part of Incoming Auditor to be read as compliance with Sections 139 and 140 of Companies Act, 2013.

Change in Auditors & Communication.

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule

Clause (8): Non Communication with Previous Auditor :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing;

Important Points :

- Applicable to all types of audits.
- Position previously held by CA (and not previous year's CA) for same or similar assignment comprising same/similar scope.
- Communication to be made before acceptance of Audit.
- Mode of Communication discussed later..
- In case of Govt. Audits or Bank Audits, where work has to be attended immediately, the new auditor can give conditional acceptance making clear to the client that his acceptance of appointment is subject to professional objections by previous auditor, on the basis of which final decision will be taken.
- The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant.

Change in Auditors & Communication.

Relevant Guidelines and Clauses in Schedules to CA Act - Council General Guidelines, 2008

A member of the Institute in practice **shall not accept** the appointment as auditor of an entity in case the undisputed audit fee of another Chartered Accountant for carrying out the statutory audit under the Companies Act, 1956 or various other statutes has not been paid:
Provided that in the case of sick unit, the above prohibition of acceptance shall not apply.

Explanation 1: For this purpose, the provision for audit fee in accounts signed by both - the auditee and the auditor shall be considered as “undisputed” audit fee.

Explanation 2: For this purpose, “sick unit” shall mean where the net worth is negative.

Clause 1 of Part-II of Second Schedule.

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council

Hence unless there is concrete proof available for payment of undisputed audit fees of the previous auditor, the new auditor shall not accept the audit. Otherwise it will be Mis-conduct as per Clause 1 of Part-II of Second Schedule.

Change in Auditors & Communication.

Clause (8): Non Communication with Previous Auditor :-

Mode of Communication:- New Additions :

➤ Email Communication now allowed with some conditions :

Members should therefore communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee. In the opinion of the Council following modes would in normal course provide evidence of communication –

- communication by a letter sent by “Registered Post - Acknowledgement due”
- by hand against a written acknowledgement,
- acknowledgement of the communication from retiring auditor’s via email address registered with the Institute or the last known official email address; and
- through Unique Identification Number (UDIN) generated on UDIN portal (subject to separate guidelines to be issued by the Council in this regard)

➤ Duty on Previous Auditor in case of change of Auditorship :

On the request of the Incoming Auditor to the retiring auditor for providing known information regarding any information of which, in the retiring auditors opinion, the Incoming auditor needs to be aware before deciding whether to accept the engagement, the retiring auditor shall provide the information diligently.

Change in Auditors & Communication.

Addressing peculiar circumstances while communicating

Factor	Earlier	Revised
Premises are locked	Silent	Communication received back by the Incoming Auditor with “Office found Locked” written on the AD shall be deemed as delivered
Firm not found at the given Registered address	Silent	If Communication sent by with remarks “No such office exists at this address”, and address is registered with Institute - deemed to be delivered, unless the retiring auditor proves that it was not really served and that he was not responsible for such non-service.
Communication in case of certification	Healthy practice	Dispensed with

Change in Auditors & Communication : Changes in Code of Ethics 2019- Volume -I

Changes in Professional Appointment (Section 320)

- Code of Ethics, 2019 (Volume-I) contains detailed guidance on client and engagement acceptance / changes in professional appointment
- ICAI “Know Your Client” (KYC) Guidelines incorporated – which are mandatory for all attest functions w.e.f 1.1.2017
- In case of change of appointment, if unable to communicate with the predecessor accountant, the proposed accountant shall take other reasonable steps to obtain information about any possible threats.
- Duty of predecessor accountant to respond to communication (against the earlier Code which is silent on this issue). He shall:-
 - (a) Comply with relevant laws governing the request; and
 - (b) Provide any information honestly and unambiguously.

Independence

Relevant Clauses in Schedules to CA Act -

Part – I of The Second Schedule :

Clause (4): Audit of Concern in which having substantial interest :-

A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he expresses his opinion on financial statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;

Appendix 9 to CA Regulations, 1988 - Substantial Interest

a member shall be deemed to have a “substantial interest” in a concern –

- (i) in a case where the concern is a Company, if its shares (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) carrying not less than twenty per cent of voting power at any time, during the relevant years are owned beneficially by such member or by any one or more of the following persons or partly by such member and partly by one or more of the following persons: (a) One or more relatives of the member; (b) Any concerns in which any of the persons referred to above has a substantial interest;
- (ii) in the case of any other concern, if such member is entitled or the other persons referred to above or such member and one or more of the other persons referred to above are entitled in the aggregate, at any time during the relevant years to not less than twenty percent of the profits of such concern.

Independence : Changes in Code of Ethics 2019- Volume -I

Management Responsibilities (Sections 607 – 608)

- In 2019 edition (Volume-I), there is a new section dealing with 'Management Responsibilities'. As per the same, **the firm shall not assume a management responsibility for an audit client.**
- However, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility.
- Providing administrative services to an audit client does not usually create a threat. Examples of administrative services include:-
 - *Word processing services.*
 - *Preparing administrative or statutory forms for client approval.*
 - *Submitting such forms as instructed by the client.*
 - *Monitoring statutory filing dates, and advising an audit client of those dates.*
- Prohibitions on provision of certain types of Non assurance services to Audit clients e.g. Internal audit, Accounting and Book keeping services, partial prohibitions in valuation services, IT Systems Services , etc.
- New prohibitions of recruiting services in 2019 Code:-
 - ✓ Enhanced general description of recruiting services
 - ✓ Clearer guidance on types of recruiting services prohibited
 - ✓ New provisions to help avoid assuming management responsibilities when providing recruiting services—Similar to IT and internal audit
 - ✓ Prohibition on providing certain recruiting services now applies to all entities –Searching for or seeking out candidates
 - ✓ Undertaking reference checks of prospective candidates

Independence: Changes in Code of Ethics 2019- Volume -I

Fees – Overdue (Section 410)

- A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued.
- Examples of actions that might be safeguards to address such a self-interest threat include:
 - Obtaining partial payment of overdue fees.
 - Having an appropriate reviewer who did not take part in the audit engagement review the work performed.
- When a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:
 - (a) Whether the overdue fees might be equivalent to a loan to the client; and
 - (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

Independence

Guidance Note on Independence of Auditors : (Self Regulatory Measures)

- Independence is – (a) Independence of Mind and (b) Independence in Appearance.
- Disqualifications to act as Auditors u/s. 141(3) of Companies Act 2013- An objective assessment to be made in letter and spirit.
- Not to undertake dual responsibility- e.g. Acting as Auditor & Liquidator.
- In case of appointments done by RBI/CAG- Not to accept any other assignment within one year from completion of Audit Assignment.
- Auditors can not provide Internal audit, Accounting and Book keeping services, partial prohibitions in valuation services, Cost Audit, IT Systems Services.
- CA is expected to be no less independent in the discharge of his duties as a tax consultant or as financial advisor than as a Auditor.
- Acceptance of the appointment as statutory auditor of PSU(s)/ Govt./Listed/ and other Public Company(ies) having turnover of Rs. 50 crores or more in a year and also accepting any other work or assignment or service in regard to the same entity on a remuneration which in total exceeds the fee payable for carrying out their statutory audit not allowed. (Notification No.1-CA(7)/60/2002 dated 8th March, 2002)

Independence

Additional Clarification in Volume -II

- Modification in the situations of Conflict of Interest in accordance with Companies Act, 2013.
- Statutory auditor not to be the Internal Auditor simultaneously
- Internal auditor not to be the Tax auditor simultaneously
- Internal Auditor not to be the GST Auditor simultaneously
- Cooling off period after completion of tenure as Director - A member not to be the auditor of a Company for a period of two years from the date of completion of his tenure as Director

Independence

Disqualification of Auditors: Companies Act 2013

➤ **Disqualification based on Relationship**

- As per Section 141(3) (b), any employee or officer of the company.
- As per Section 141(3) (c), a person who is a partner or who is in the employment, of an officer or employee of the company.
- As per Section 141(3) (f), every person who is relative to a company's employee, director or anyone holding Key managerial post.

➤ **Disqualification of Auditor based on Conflict of interest**

- As per section 141(3) (d), if a person who, or his relative or his partner— ;
 - Is holding any interest or Security in the company or the holding or the subsidiary or its associate Company. It has been further provided that an relative may hold security or interest in the company of face value not exceeding 1 lakh rupees.
 - Is indebted to the company or its subsidiary, or its holding or associate company or subsidiary of such holding company, in excess of Rs. 5 lacs rupees.
 - Has given guarantee or provide any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company for value in excess of Rs. 1 lacs.

- As per Section 141(3) (e), A person or a firm who (whether directly or indirectly) has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company.

Charging Fees on Percentage Basis/Contingencies

Relevant Clauses in Schedules to CA Act -

Part – I of The First Schedule.

Clause (10): Charging Fees on the basis of Percentage or Contingencies :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he charges or offers to charge, accepts or offers to accept in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulation made under this Act;

Important Points :

- Fees can not be charged on the basis percentage of profits.
- Fees can not be charged based on findings or results of any contingency in Professional work.
- Even agreeing to charge or accept fees on percentage basis or contingent upon findings or results also would become professional misconduct.

Exceptions – Regulation 192 of Chartered Accountants Regulation 1988

- Receiver, Liquidator-basis-Realisation of Assets, Valuer-basis-Value of Asset, Debt Recovery Services-basis-Amount of Debts recovered, Cost optimisation Services-basis-Benefits derived.
- Auditor of Co-op. Societies-basis-Working Capital , Gross/Net Profit.
- Management consultancy services (approved by Council) -basis-percentage basis, contingent upon the findings, or results of such work.
- Certain fund raising services, the fees may be based on a percentage of the fund raised.

Allowing Non CAs to Practice/Sign

Relevant Clauses in Schedules to CA Act - Part – I of The First Schedule.

Clause (1): Allowing Non CA to practice in his name :-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him;

- To safeguard the public against unqualified accountants.
- Duty of Members not to allow such persons to practice, if in their knowledge.

Clause (12): Allowing Persons other than practicing CA to sign on his behalf:-

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he allows a person not being a member of the Institute in practice, or a member not being his partner to sign on his behalf or on behalf of his firm, any balance- sheet, profit and loss account, report or financial statements.

Council Clarification: Delegation allowed where professional opinion/authentication not required – Issue of Audit Queries, Forwarding Observations , Asking information etc. during Audit.

Suggested Steps:

- In every engagement involving attestation, prepare Report or Certificate adhering to ‘Guidance Note on Reports or Certificates for Special Purposes’ with Sign, Seal, Date and Place.
- Create UDIN for the same.

Preparation of Certificates and Reports

Illustrative Format from Guidance Note on Reports or Certificates for Special Purposes:

Illustration 1: Practitioner's Report for Turnover/Net Worth/Net Profit/Working Capital/similar engagement pursuant to a Tender requirement

To,
The Board of Directors [Name of the Company]
[Company Address]

Independent Practitioner's Report on the Statement of [Annual Turnover for financial years ended.....and..... (specify periods); Current Assets; Current Liabilities; Computation of Working Capital and Computation of Net worth as at..... (specify date)]

1. This Report is issued in accordance with the terms of our engagement letter/agreement dated [specify date]
2. The accompanying Statement of Annual Turnover for financial years endedand..... (specify period) and the Statement of Current Assets; Current Liabilities; Working Capital and Net Worth as at (specify date) (hereinafter referred together as the "Statement") contains the details as required pursuant to compliance with the terms and conditions contained in [refer to the clause] of the Tender document issued by [refer to the authority] dated (specify date) with reference [specify the contract reference if available] (hereinafter referred to as the "Tender Document"), which we have initialled for identification purposes only.

Preparation of Certificates and Reports

Illustration -1 (contd.)

Management's Responsibility for the Statement

3. The preparation of the Statement is the responsibility of the Management of
..... [Name of the Company] (hereinafter the "Company") including the preparation and maintenance of all accounting and other relevant supporting records and documents. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

4. The Management is also responsible for ensuring that the Company complies with the requirements of the Tender Document and provides all relevant information to
[Name of the authority].

Practitioner's Responsibility

5. Pursuant to the requirements of the Tender Document, it is our responsibility to provide a reasonable assurance whether:

Preparation of Certificates and Reports

Illustration -1 (contd.)

- i) the amounts in the Statement of Annual Turnover for the year ended (specify period) have been accurately extracted from the audited financial statements;
- ii) the amounts in the Statement in respect of current assets and current liabilities that form part of the working capital computation have been accurately extracted from the audited financial statements for the year ended (specify the period) and the computation of working capital is arithmetically correct;
- iii) the amounts in the Statement that form part of the Net Worth computation have been accurately extracted from the audited financial statements for the year ended; and [month][date][year] and the computation of net worth is arithmetically correct; and
- iv) the computation of net worth and working capital is in accordance with the method of computation set out in the clause [] of the Tender Document.

Preparation of Certificates and Reports

Illustration -1 (contd.)

6. The audited financial statements referred to in paragraph 5 above, have been audited by us, on which we issued an unmodified audit opinion vide our report(s) dated (specify dates) respectively. Our audits of these financial statements were conducted in accordance with the Standards on Auditing and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

7. We conducted our examination of the Statement in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the Institute of Chartered Accountants of India. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of India.

8. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

Preparation of Certificates and Reports

Illustration -1 (contd.)

Opinion :

9. Based on our examination, as above, we are of the opinion that:

- i) the amounts in the Statement in respect of Annual Turnover, Current assets and Current liabilities have been accurately extracted from the audited financial statements for the years ended [date] and [date];
- ii) the amounts that form part of the working capital and net worth computation have been accurately extracted from the audited financial statements for the years ended[specify date] and [specify date]; and that the computation of working capital and net worth in the Statement is mathematically accurate and is in accordance with the method of computation set out in the clause [] of the Tender Document.

Restriction on Use

10. The certificate is addressed to and provided to the Board of Directors of the Company solely for the purpose to enable comply with requirement of Tender Document and to submit the accompanying Statement to [specify the authority], and should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this certificate is shown or into whose hands it may come without our prior consent in writing.

Preparation of Certificates and Reports

Relevant Clauses in Schedules to CA Act -

- Part – I of The Second Schedule.
- **Clause (3): Certifying Estimated Earnings :-**
- A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast;
- **Ref : SAE 3400 on The Examination of Prospective Financial Information.**

Illustrative Format from SAE 3400 - Illustrative Format of an Unmodified Report on a Projection

Report on Examination of Prospective Financial Information

To
the ...(addressee).....

We have examined the projection of _____(project)_____ (name of the entity) for the period from ____ to ____ as given in _____ to the Prospective Financial Information from page __ to __ in accordance with Standard on Assurance Engagement 3400, “The Examination of Prospective Financial Information”, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the projection including the underlying assumptions, set out in note _____ to _____ to the prospective financial information, is the responsibility of the Management and has been approved by the Board of Directors of the company. Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information. Our responsibility does not include verification of projections. Therefore, we do not vouch for the accuracy of the same.

Preparation of Certificates and Reports

Illustrative Format from SAE 3400 (contd.)

This projection has been prepared for _____ (intended use). The projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, users are cautioned that this projection may not be appropriate for purposes other than that described above.

We have carried out our examination of the prospective financial information on a test basis. Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection, assuming that _____ (state or refer to the hypothetical assumptions).

Further, in our opinion the projection is properly prepared on the basis of the assumptions as set out in Note _____ to the Prospective Financial Information and on a consistent basis with the historical financial statements, using appropriate accounting principles. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

Auditing of Financial Statements & Reporting

Relevant Clauses in Schedules to CA Act -

• Part – I of The Second Schedule.

A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he-

Clause (2): Submitting Report without verification of Financial Statements :-

- certifies or submits in his name, or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice

Clause (5): Failure to disclose material facts :-

- fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity;

Clause (6): Failure to report material misstatement :-

- fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;

Clause (8): Failure to obtain sufficient information :-

- fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;

Clause (9): Failure to report material departures from Generally accepted audit procedure :-

- fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances (Requirements of Peer Review, UDIN, Mentioning of FRN etc. included)

Confidentiality and Custody of Client's Assets/Money

Relevant Clauses in Schedules to CA Act -

Part – I of The Second Schedule.

A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he-

- **Clause (1): Disclosure of information without consent of Client :-**
- discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.
- **Clause (10): Failure to keep client's money in separate A/c or using the same for it's purpose:-**
- fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

Part – II of The Second Schedule.

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he

Clause (2): being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment except as and when required by any law for the time being in force or except as permitted by the employer

Clause (4): defalcates or embezzles moneys received in his professional capacity.

Not Providing Information/ Providing Wrong Information

Relevant Clauses in Schedules to CA Act -

Part – III of The First Schedule.

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he

Clause (1): not being a fellow of the Institute, acts as a fellow of the Institute.

Clause (2): does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

Clause (3): While inviting professional work from another chartered accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

Part – II of The Second Schedule.

Clause (3): includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false;

Breach of Professional Duties/ General Misconduct

Relevant Clauses in Schedules to CA Act - Part – I of The Second Schedule.

Clause (7): Grossly Negligent :-

- A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

Part – II of The Second Schedule

- **Clause (1):** A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he **contravenes** any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council

Part – IV of The First Schedule

- **Clause (2) :** A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he in the opinion of the Council, **brings disrepute** to the profession or the Institute as a result of his action whether or not related to his professional work.
- The Council has been empowered to opine on any action of a member which brings the Institute or profession in disrepute as misconduct.

**Important Aspects in Code of Ethics with
respect Recent Decisions/Announcements
of Ethical Standards Board.**

Recent Decisions/Announcements of Ethical Standards Board

- A CA Firm may register itself on Udyog Aadhar, a web portal of Ministry Micro, Small and Medium Enterprises.
- **There is no prohibition for internal auditor of a company to acquire/purchase shares of the said Company.**
- **It is not permissible for a member to use WhatsApp to send messages to make people aware about his practice, and mention the services provided therein.**
- A Chartered Accountant in practice being Director Simplificitor in a Company cannot sign ROC Forms of the Company as it is a direct conflict of role.
- A Chartered Accountant in practice can act as Authorized Representative of a Foreign Company, provided he is not the auditor of the said Company.
- **It is permissible for two or more Chartered Accountants in practice collectively to have joint training session for their clients on GST, and share the fees collected from the clients thereof.**
- A chartered accountant in practice can provide services through kiosk only if the services provided are professional activities of a practicing chartered accountant, permitted under the Act.
- In case where Chartered Accountant in practice is a non-executive director in a company, he or a Firm in which he is a partner, should not accept the appointment as a statutory auditor of a Company which is a joint venture of the original Company, as it would impact independence.

Recent Decisions/Announcements of Ethical Standards Board

- A Chartered Accountant in practice may be an equity research adviser, but he cannot publish retail report, as it would amount to other business or occupation.
- **A Chartered Accountant, who is a member of a Trust, cannot be the auditor of the said trust.**
- A Chartered Accountant in practice may engage himself as Registration Authority (RA) for obtaining digital signatures for clients.
- **A Chartered accountant can hold the credit card of a bank when he is also the auditor of the bank, provided the outstanding balance on the said card does not exceed Rs 100000 beyond the prescribed credit period limit on credit card given to him.**
- **A Chartered Accountant in practice is not permitted to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank.**
- **A chartered accountant cannot exercise lien over the client documents/records for non-payment of his fees.**
- It is not permissible for CA Firm to print its vision and values behind the visiting cards, as it would result in solicitation and therefore would be violative of the provisions of Clause (6) of Part-I of First Schedule to the Chartered Accountants Act, 1949.
- It is not permissible for chartered accountants in practice to take agencies of UTI, GIC or NSDL.
- It is permissible for a member in practice to be a settlor of a trust.

Recent Decisions/Announcements of Ethical Standards Board

- **A chartered accountant who is the statutory auditor of a bank cannot for the same financial year accept stock audit of the same branch of the bank or any of the branches of the same bank or sister concern of the bank, for the same financial year.**
- **The Council of ICAI approved the KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attest functions.**
- Certain decisions on GST Practice (Ref. FAQs on ethical issues relating to GST dt. 15.11.2017)
 - The member /Firm can conduct training through seminars etc. on GST but only invite its existing clients to such training programmes.
 - He can send presentation on GST /write-up on GST only to existing clients, and to a proposed client if an enquiry was received from the proposed client with regard to the same.
 - In terms of provisions of Clause (7) of Part-I of First Schedule to The Chartered Accountants Act, 1949, it is not permissible for a member to mention himself as GST Consultant.
 - A member can share GST updates, mentioning himself as “CA” with individual name, provided the communication is limited to providing updates. Mention of Firm name is not allowed.
 - member can publish testimonials /appreciation letters received by him with regard to GST Training assignments on CA Firm website, but not on social media like Facebook, LinkedIn etc.
 - GST training can be provided to the existing clients. In case of non-clients, training can be provided only if the member is invited to provide such training.

Tell me and I forget.

Teach me and I remember.

Involve me and I learn.

- Benjamin Franklin

THANK YOU !!

.....for helping me to Learn