

CODE OF ETHICES



***Action indeed is the sole medium of
expression for ethics.***

Quality Assurance Mechanism in ICAI

Quality Review Board (QRB)

Set up by Section 28A of CA Act

Financial Reporting and Review Board (FRRB)

Non Standing Committee of ICAI.

Peer Review Board (PRB)

Non Standing Committee of ICAI.

Taxation Audits Quality Review Board

Non Standing Committee of ICAI.

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.
- ❖ The existing (2009) edition of ICAI Code of Ethics is based on 2005 edition of IESBA Code of Ethics.
- ❖ ICAI Code of Ethics has been revised in January, 2019 based on 2018 edition of IESBA Code of Ethics. It is applicable from 1st July, 2020.

Disciplinary Mechanism in ICAI

01 Disciplinary Directorate

02 Board of Discipline

03 Disciplinary Committee

04 Appellate Authority

Existing Code of Ethics

❖ Part-A - [Based on IFAC/IESBA Code of Ethics, 2005 edition]

Chapter 1 – General application of the Code

Chapter 2 – Professional Accountants in public practice

Chapter 3 – Professional Accountants in service

❖ Part –B - [Based on domestic Indian provisions]

Chapter 4 – Accounting and Auditing standards

Chapter 5 – The Chartered Accountants Act, 1949

Chapter 6 – Council Guidelines

Chapter 7 – Self Regulatory Measures Recommended by the

Council Appendices A – F

Structure of New Code of Ethics

Part 1 (Applicable to all Professional Accountants)

Complying with the Code, Fundamental Principles and Conceptual Framework

Part 2

Professional Accountants in Business

Part 3

Professional Accountants in Public Practice

Parts 4 International Independence Standards

Part 4A—Independence for Audits & Reviews (Sec. 400 to 899)

Part 4B—Independence for Other Assurance Engagements
(Sections 900 to 999)

Fundamental Principles

01

Integrity

02

Objectivity

03

Professional Competence and Due Care

04

Confidentiality

05

Professional Behaviour

Threats in Compliance of Fundamental Principles



Safeguards against the Threats

Safeguards created by the profession, legislation or regulation include, but are not restricted to:

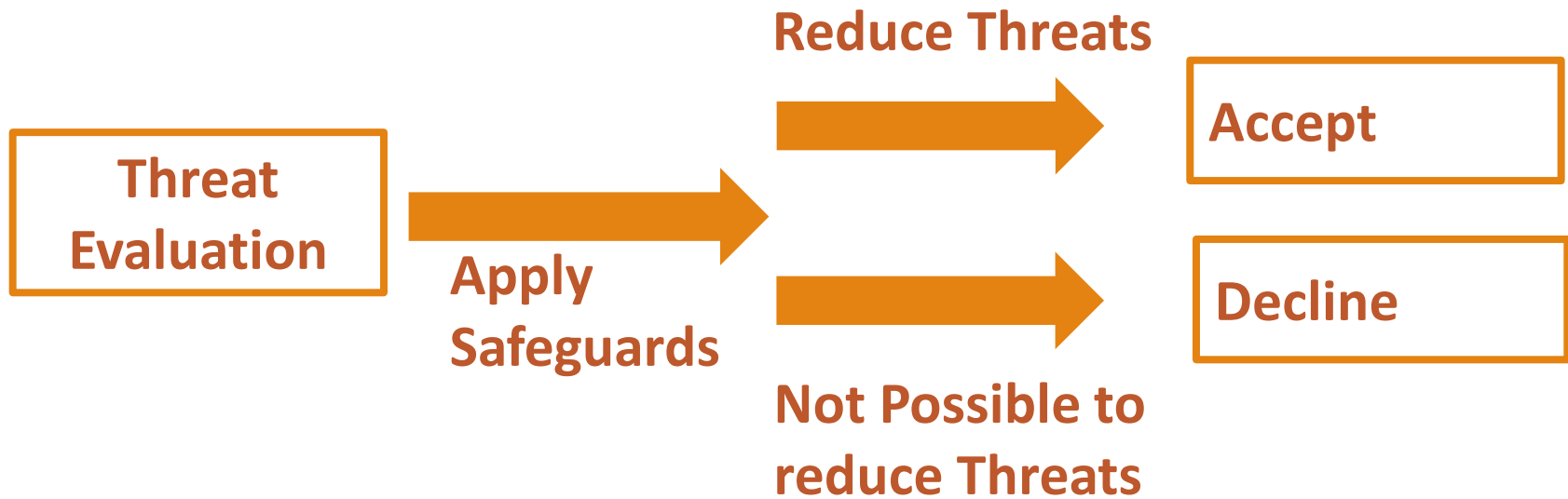
- (a) Educational, training and experience requirements for entry into the profession.
- (b) Continuing professional development requirements.
- (c) Corporate governance regulations.
- (d) Professional standards.
- (e) Professional or regulatory monitoring and disciplinary procedures.
- (f) External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.

Safeguards in the work environment:

- Compliance with the fundamental principles.
- Act in the public interest.
- To implement and monitor quality control of engagements.
- Identification and the application of safeguards.
- For assurance engagements - documented independence policies.
- To monitor and manage the reliance on revenue received from a single client.
- For Using different partners and engagement teams with separate reporting lines
- Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Advising partners and professional staff of those assurance clients and related entities from which they must be independent.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

Engagement- specific safeguards in the work environment

- Involving an additional professional accountant to review the work done or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Rotating senior assurance team personnel.



Application of Conceptual Framework

Professional Appointment

- Client Acceptance - Council Guidelines on KYC for Clients.
- Engagement Acceptance – Whether engagement can be accepted?
- Changes in a Professional Appointment – Communication with previous Auditors.

Conflicts of Interest

Second Opinions

Fees and Other Types of Remuneration

Marketing Professional Services

Gifts and Hospitality

Custody of Client Assets

Important Changes

2009 Code	Revised Code
No such provision	Responding to Non-Compliance of Laws and Regulations (NOCLAR)
No prohibition on Taxation services to Audit clients	Restrictions on Taxation services to Audit clients
No such provision	Prohibition on Management Responsibilities to the audit clients
Recommendatory 40% restriction on Fees from an audit client	15 % restriction on Fees from single client – only if it is consecutively for 2 years – and duty only to communicate TCWG
No such provision	Duty of Accountant in case of unintentional breach of Independence Standards
Independence for Assurance Engagements	Independence requirements for Audit and Review Engagements and other Assurance engagements differentiated
No characterization as Standards	Independence sections re-characterized as “International Independence Standards”
Use of “Should”	Change in the drafting conventions e.g. “should” to “shall”
No such restructuring of Sections	New pattern of structuring of sections – Requirements distinguished
Lack of clarity for each entity	Increased clarity of responsibility for compliance - Firms, network firms, individuals within firms

NOCLAR

Non-Compliance with Laws and Regulations

While providing a professional service to a **client** or for **an employer**, a Professional Accountant may come across an instance of **non-compliance with laws and regulations** (NOCLAR) or suspected NOCLAR committed or about to be committed by the client or the employer, or by those charged with governance, management or employees of the client or employer.

- Have direct effect on the determination of material amounts and disclosures in the financial statements
- Compliance of which fundamental to the entity's business
- Compliance necessary to avoid material penalties.

□ Examples:

- Fraud, corruption and bribery, Money laundering, terrorist financing and proceeds of crime
- Securities markets and trading, Banking and other financial products and services
- Data protection, Environmental protection, Public health and safety
- Tax and pension liabilities and payments

□ Following matters are not in scope of NOCLAR:

- Clearly inconsequential
- Personal misconduct unrelated to the business activities
- Non-compliance other than by the client or employer

Applicability of NOCLAR



For now, limited application of NOCLAR has been prescribed in Code of Ethics as against comprehensive application of NOCLAR to all assignments/employees in the IESBA Code.

Applicable only to listed entities.

Applicable to only audit assignments.

In case of Pas in service, applicable to employees of listed entities.



Taxation services to the Audit clients

❑ ICAI Code Ethics, 2009

Taxation to Audit client include compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to independence.

❑ ICAI New Code of Ethics

Providing tax services to an audit client might create a self review or advocacy threat –

- Tax Return preparation – Usually no threat
- Tax Calculations for the Purpose of Preparing Accounting Entries- Self-review threat
- Tax Planning / Other Tax Advisory Services – Self Review / Advocacy threat
- Tax Services Involving Valuations- Self Review threat
- Assistance in the Resolution of Tax Disputes - Self Review / Advocacy threat

Fees

Where for **two consecutive years**, total **gross** annual professional fees from the **audit client** and its **related entities** represent more than **15% of total fees**, the firm shall **disclose** to **Those Charged With Governance**.



Note:

- No such ceiling on total fees of the Firm would be applicable where such fees does not exceed **Rs.5 Lakhs**.
- No such ceiling on the total fees would be applicable in the case of audit of **Government** Companies, public undertakings, nationalized banks, public financial institutions or Government appointments.

Part – I of First Schedule

Professional Misconduct in relation to Chartered Accountants in practice

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

Clause (2): Sharing Fees or Profits with Non CA.

Clause (3): Receiving share in Profits from Non CA.

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

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

Clause (6): Solicitation of Professional Work

Clause (7): Advertisement of Professional and Other Achievements

Clause (8): Non Communication with Previous Auditor

Clause (9): Accepting Audit Appointment without ascertaining Company Law compliance

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

Clause (11): Engaging business/occupation other than CA

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

Part – II of First Schedule

Professional Misconduct in relation to Chartered Accountants in service

Clause (1): Sharing Emoluments

Clause (2): Accepting part of Fees etc from Professional engaged by Employer Company

First Schedule (Part - II)

Apply to CA in service

Clause

- (1) Pay any share in his emoluments to any person
- (2) Accept any part of fees from lawyer, CA, Broker etc. by way of commission or gratification
- (3) Disclose confidential information of employer.

Part – III of First Schedule

Professional Misconduct in relation to Chartered Accountants (in general)

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 – IV of First Schedule

Other misconduct in relation to members of the Institute generally

Clause (1): is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months;

The members who are held guilty by a Court of law for an offence punishable upto six months in person are also liable for misconduct.

Clause (2): 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.

Part – I of Second Schedule

Professional misconduct in relation to chartered accountants in practice

Clause (1): Disclosure of information without consent of Client

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

Clause (3): Certifying Estimated Earnings

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

Clause (5): Failure to disclose material facts

Clause (6): Failure to report material misstatement

Clause (7): Grossly Negligent

Clause (8): Failure to obtain sufficient information

Clause (9): Failure to report material departures in accounts

Clause (10): Failure to keep client's money in separate A/c or using the same for its purpose

Part – II of Second Schedule

Professional Misconduct in relation to Members of the Institute generally

Clause (1): Contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council.

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 (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;

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

Part – III of Second Schedule

Other Misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct;

- If he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.
- If a member of the Institute, whether in practice or not, is held guilty by any Court for any offence which is punishable with imprisonment for more than six months, he shall be held guilty of 'misconduct' under this Clause.

Recent Important Announcements / Clarifications

- A CA Firm may register itself on Udyog Aadhar.
- 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 Simplicitor 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.

- Two or more CA in practice collectively can have joint training session for their clients on GST, and share the fees collected from the clients thereof.
- CA in practice can provide services through kiosk only if the services provided are professional activities of a practicing chartered accountant, permitted under the Act.
- Where CA 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.
- CA in practice may be equity research adviser, but he cannot publish retail report, as it would amount to other business or occupation.

- CA who is member of Trust, cannot be the auditor of the said trust.
- CA in practice may engage himself as Registration Authority (RA) for obtaining digital signatures for clients.
- CA 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.10,000 beyond the prescribed credit period limit on credit card given to him.
- CA 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.
- CA 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.
- It is not permissible for CA 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.
- Members in practice engaged in Coaching/Teaching activities are advised to abstain from advertising their association with Coaching /teaching activities through hoardings, posters, banners and by any other means.
- KYC Norms are mandatory in nature and shall apply in all assignments pertaining to attest functions.
- The member /Firm can conduct training through seminars etc. on GST but only invite its existing clients to such training programmes.

- CA can send 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.
- It is not permissible for a CA 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.