

# Code of Ethics

# ICAI Motto

- Ya Aeshu Suptaesu Jagruthi.....
- “A person who is awake in those that sleep”

# Evolution

- First published in 1963
- Further editions came in 1966, 1969, 1971, 1976, 1979, 1980, 1981, 1984, 1985, 1987, 1988, 1995, 1996, 1997, 1998, 1999, 2001, 2003, 2005, 2009, 2010
- Rather Long Gap 2010-2019

# Evolution...

- The present edition which is the 12 Edition came up with a bang predominantly due to 2 reasons
  - It was the need of the hour for the Profession and the Institute. It was an answer to the question – *“What were the Auditors doing?”*
  - The manner in which it was recast

# Code of Ethics 2019

- Effective from 1 July 2020
- Comes in three Parts
  - Volume I – The New Code 2019
  - Volume II – The erstwhile Code of Ethics containing the 2 Schedules of the CA Act revised in 2020
  - Volume III – Case Laws Referencer

# Code of Ethics 2019

- Volume III is a compendium of various Disciplinary cases
- Volume II comprises of Schedule I and II of the CA Act with amendments, 2020
- Volume I is what is totally new to Code of Ethics compared to the other volumes

# Volume I of Code of Ethics

- Based on 2018 edition of International Ethics Standards Board for Accountants (IESBA)
- Aligned to the Indian laws and practices
- Also a requirement for the ICAI to satisfy the membership eligibility of International Federation of Accountants (IFAC)

# Structure of the Code

Part	Contents	Section
1	Complying with the Code, Fundamental Principles and Conceptual Framework	100-120
2	Professional Accountants in Service	200-270
3	Professional Accountants in Public Practice	300-360
4	4A – Independence Standards for Audit and Review Engagements	400-800
	4B – Independence Standards for Assurance Engagements other than contained in 4A	900-990
	Glossary Including Lists of Abbreviations	



# Structure ....

- Each section of the Code is structured, where appropriate as follows:
  - Introduction
  - Requirements (**R**)
  - Application Material (**A**)

# Using the Code

- The code requires Professional Accountants to
  - Comply with the **Fundamental Principles of Ethics**
  - Apply the **Conceptual Framework** to Identify, Evaluate and **Address the Threats** to compliance with fundamental principles
  - Address threats by **eliminating** them, applying **safeguards** to bring them to an acceptable level

# Part 1 – Complying with the Code

- Section 100
  - A Professional Accountant **shall** comply with the code (**R100.3**)
  - A Professional Accountant who identifies a breach of any other provision of the code **shall** evaluate the significance of the breach and its impact on accountant's ability to comply with the **fundamental principles (R100.4)**

# Fundamental Principles

- Section 110 – A Professional Accountant is expected to comply with **each** of the fundamental principles of ethics(**R110.2**) They are
  - Integrity
  - Objectivity
  - Professional competence and Due care
  - Confidentiality
  - Professional Behavior

# The Conceptual Framework

- Section 120

The conceptual framework specifies an approach for a professional accountant to

- Identify threats to compliance with fundamental principles
- Evaluate the threats identified
- Address the threats by eliminating or reducing them to an acceptable level

# Applying the Conceptual Framework

- While Applying the conceptual network, the PA shall
  - Exercise professional judgment
  - Remain alert for new information and to changes in facts and circumstances;
  - And use the reasonable and informed third party test described in Para 120.5A

# Categories of Threats

- Self Interest threat
- Self Review threat
- Advocacy threat
- Familiarity threat
- Intimidation threat

# Other significant items in Vol I

- Non-Compliance with Laws and Regulations (NOCLAR)
- Part 2 P A s in Service - Sections 260
- Part 3 P As in Public Practice-360
- As of now applies only to Listed Entities
- Applicability deferred as of now



# Fees

- Part 4 – Section 410
- Nature and level of fees creates self interest or intimidation threat
- Quantum of fees not more than 15% of total fees received
- Safe guards
  - 1. Increase client base
  - 2. Engage an appropriate reviewer
- Fees overdue
- Applicability deferred

# Non-Assurance services to Audit clients

- Cannot assume Management responsibilities
- Administrative Services do not usually create any threats
- Tax Returns fine
- Tax calculations for Accounting Entries/ Tax Planning/Tax Advisory/Valuations/Tax Dispute Resolutions creates Self Review threats/Advocacy threats
- Deferred till further announcement

# Volume II

- CA Act, 1949
- First Schedule
  - (4 Parts – 12,3,2,3 clauses)
- Second Schedule
  - (3 Parts – 10,4,1 clauses)
- Council guidelines

# Deemed to be in Practice

- Section 2 of CA Act –
  - Practice of Accountancy
  - Auditing
  - Setting Accounting Internal controls
  - Such other services prescribed by council
  - Taking up appointment as liquidator/arbitrator/Executor/Receiver with CG/SG
  - Rendering Management Consultancy or other services
  - A CA in employment with another CA/firm for the purpose of training Articles

# Engaging in other business/occupation

- Part I of First Schedule – Clause 11
- Exemption to Director Simplicitor (DS)
- No involvement other than attending Board Meetings
- There is no equivalent for DS in LLP
- General Permission/Special Permission
- Deemed to be in Part Time Practice

# Sharing of fees

- Part I of First Schedule – Clause 2 with Non CAs
- Part I of First Schedule – Clause 3 Receiving share of profits from Non CAs
- Referral fees now permitted between members
- Partnerships/ Multi Disciplinary

# Solicitations/Promotion/Advertisements

- Part I of First Schedule
- Clause 5 – Bar on securing Professional Work by non permitted means
- Clause 6 – Solicitation of Professional Work
  - Other than from another CA in practice
  - Responding to Tenders
- Clause 7 – Advertisement of Professional and other achievements

# Write ups

- Advertisement guidelines permit Write up
- Honest and truthful
- No exaggerated claim of services and qualifications
- Should not bring disrepute to profession
- No testimonials\endorsements\client list
- No tag lines, monograms
- Membership No. and FRN must
- Font size not above 14
- Not violative of Code
- Passport style photos permitted



# Advertisements.....

- Press Advertisements
- Greeting Cards, Invitations – generally allowed
- Professional Stationery and Visiting Cards
- Member or Firm not to sponsor events
- Advertisement of Coaching centres
- Illuminated Sign boards- No
- TV/Movie credits
- Interviews
- Books, Articles and Presentations

# Advertisements.....

- Uploading Educational Videos
- Appearance on TV, Films and Internet
- Network
- Logo
- Mentioning of fees in Advertisements by Members

# Appointment as Auditors

- Part I of First Schedule – Clause 9
- Misconduct if accepted without ascertaining the requirements of Section 225 of the Companies Act

# Communication with Retiring Auditor

- Part I of the First Schedule – Clause 8
- Applicable to all types of Audit
- Earlier Auditor not Previous Year Auditor
- To be made before acceptance of Audit
- Provision for Audit Fees to be the undisputed fees
- Duty on Previous Auditor to respond

# Independence

- Part I of Second Schedule – Clause 4
- Audit of concern in which having substantial interest
- Substantial interest
  - 20% of shares held or jointly with one or more relatives/concerns having substantial interest
  - Entitlement to or 20 or more % of profits

# Independence...

- Independence of mind
- Independence in Appearance
- Not to accept any assignment for 1 year after a RBI/CAG Audit assignments
- Statutory Audit and Internal Audit – No
- Internal Audit and Tax Audit – No
- Internal Audit and GST Audit – No
- Member cannot be auditor for at least 2 year period after being a Director

# Independence

- As per Section 141(3)(b) of Companies Act
  - Disqualification based on relationships
  - Disqualifications based on Conflict of Interest

# Fees on Percentage/Contingencies

- Part I of Schedule I – Clause 10
  - Prohibited
  - Exceptions
    - Receiver/Liquidator/Realisation of Assets/Valuation
    - Management Consultancy Services approved by council
    - Certain fund raising activities
    - Insolvency Professional
    - Non Assurance service to Non Audit Clients



# Some Practical aspects

- True Copy attestations
- Preparation of Certificates & Reports
- Certifying Estimated Earnings SAE 3400
- Digital Signatures
- General Misconduct (Part IV of First Schedule)

# Auditing and Reporting

- **Part I of Second Schedule**

Clause 2 – Submitting report without verification

Clause 5- Failure to disclose material facts

Clause 6 – Failure to report material misstatement

Clause 8 – Failure to obtain sufficient information

Clause 9 – Failure to report material departures from Generally Accepted Audit Procedures

# Confidentiality/Custody of Client Assets

- Part I of The Second Schedule
  - Clause 1 – Disclosure of information without consent of client
  - Clause 10 – Failure to keep client money in separate account or using it for purpose other than intended
- Part II of The Second Schedule
  - Clause 2 – being an employee discloses confidential information
  - Defalcates or embezzles moneys received in professional capacity

# Others

- Not Providing Information – Part III of First Schedule
- Providing Wrong Information – Part II of Second Schedule
- Part I of The Second Schedule
- Clause 7 – Grossly Negligent

# Ethics now and then ?

- In the Forward in the 1963 First Edition the then President CA R.C Cooper noted –

*“Ethics is a state of mind, and there may be some act which though it may not strictly fall under one of the items of the Schedule, may be one which may not be proper by any moral or ethical standards. In the larger interests of the Institute, the Council exhorts all the members to search their hearts and conscience whenever in doubt, and thereby assist towards the maintenance of high principles of professional conduct.”*

# Q & A

# Thank You