

# Auditing Standards & Code of Ethics



CA. Ganesh Balakrishnan


An illustration on a teal background featuring a central magnifying glass with the text "Auditing Standards" inside its lens. Surrounding the magnifying glass are various office-related items: a hand with a watch pointing to the left, a hand pointing to a calculator displaying "123", a hand pointing to a document with a blue pen nearby, a blue highlighter, and another document with a blue pen. The overall theme is professional auditing and financial review.

# Auditing Standards

# Auditing Standards – An Overview

# Formulation of Auditing Standards


1. The AASB determines the broad areas in which the SAS need to be formulated and the priority in regard to the selection thereof.



2. In the preparation of SAS, the AASB is assisted by Study Groups constituted to consider specific subjects



3. On the basis of the work of the Study Groups, an exposure draft of the proposed SA is prepared by the Committee and issued for comments by members of the Institute.



4. After taking into consideration the comments received, the draft of the proposed SA is finalized by the AASB and submitted to the Council of the Institute.



5. The Council of the Institute considers the final draft of the proposed SA, and, if necessary, modifies the same in consultation with the AASB. The SA is then issued under the authority of the Council.

# Auditing Standards – An overview

---

Standard on Quality Control (SQC) which contains extensive requirement in relation to establishment and maintenance of a system of quality control in audit firms as well as even for sole practitioners.

---

Standards on Auditing (SAs) are applied in the audit of historical financial information.

---

Standards on Assurance Engagements (SAEs) are applied in assurance engagements, dealing with subject matters other than historical financial information.

---

Standards on Related Services (SRs), are applied to engagements involving application of agreed-upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

---

Standards on Review engagements (SREs) are applied in the review of historical financial information.

# Auditing Standards – An overview

## Auditing Standards-An Overview

Standard  
for Quality  
Control

Standards on Auditing

Standards on  
Assurance  
Engagement

Standards  
On  
Related  
Services

Standards  
on Review  
Engagement

Introductory  
Matters

General  
Principles &  
Responsibilities

Risk  
Assessment  
& Response  
to the  
Assessed Risk

Audit  
Evidence

Using Work  
of Others


Audit  
Conclusions  
and reporting

Specialized  
Areas

# Standards on Auditing – Recent updates

# SA 700 (Revised)-Forming an Opinion and Reporting on Financial Statements

The new auditor's report is a significant shift from the 'templated' model under the existing standards which leads to almost identical reports with no additional observations from the auditors. Some of the changes in the report include:

- 
- Inclusion of key audit matters (KAMs) that are selected from matters communicated with those charged with governance, in case of listed entities.
  - Reordering of the contents of the auditor's report, with the audit opinion finding its place right at the beginning of the report.
  - Revised description of auditor's responsibilities, which now includes an assertion relating to independence of the auditor.
  - Revised description of management's responsibilities, which now includes a requirement to explain the assessment of going concern assumption

# SA 700 (Revised)-Forming an Opinion and Reporting on Financial Statements

## *Old*

*"Title"* Independent Audit's Report

*"Addressee"* To the Members Of ABC Company Limited

Report On the Financial Statements

*"Introductory Paragraph"*

We have audited the.....

*"Management's Responsibility for the Financial Statements"*

*"Auditor's Responsibility"*

*"Auditor's Opinion"*

*"Emphasis Of Matters"*

*"Other Matters"*

*"Report On Other Legal and Regulatory Requirements"*

Signature

Date of Auditors Report

Place Of Signature

## *New*

*"Title"* Independent Audit's Report

*"Addressee"* To the Members Of ABC Company Limited

Report On Audit of the Financial Statements

***"Opinion"***

**We have audited the.....**

**In our Opinion.....**

***"Basis For Opinion"***

***"Key Audit Matters"*** (If Applicable)

***"Management's Responsibility for the Financial Statements"***

***"Auditor's Responsibility"***

*"Emphasis Of Matters"*

*"Other Matters"*

*"Report On Other Legal and Regulatory Requirements"*

Signature

Date of Auditors Report

Place Of Signature

# SA 700 (Revised)-Forming an Opinion and Reporting on Financial Statements

## Impact of Revision of SA

### Management and Board of Directors:

- Increased communication between auditors and TCWG
- Increased attention to disclosures in FS

### Investors and Analysts:

- Meaningful information leading to better decision making
- Tailor Made relevant information

### Regulators:

- Greater Transparency
- Better and clear information for significant areas

### Auditors:

- Renewed focus on matters to be reported
- Increased skepticism

# SA 701-Communicating Key Audit Matters in the Independent Auditor's Report

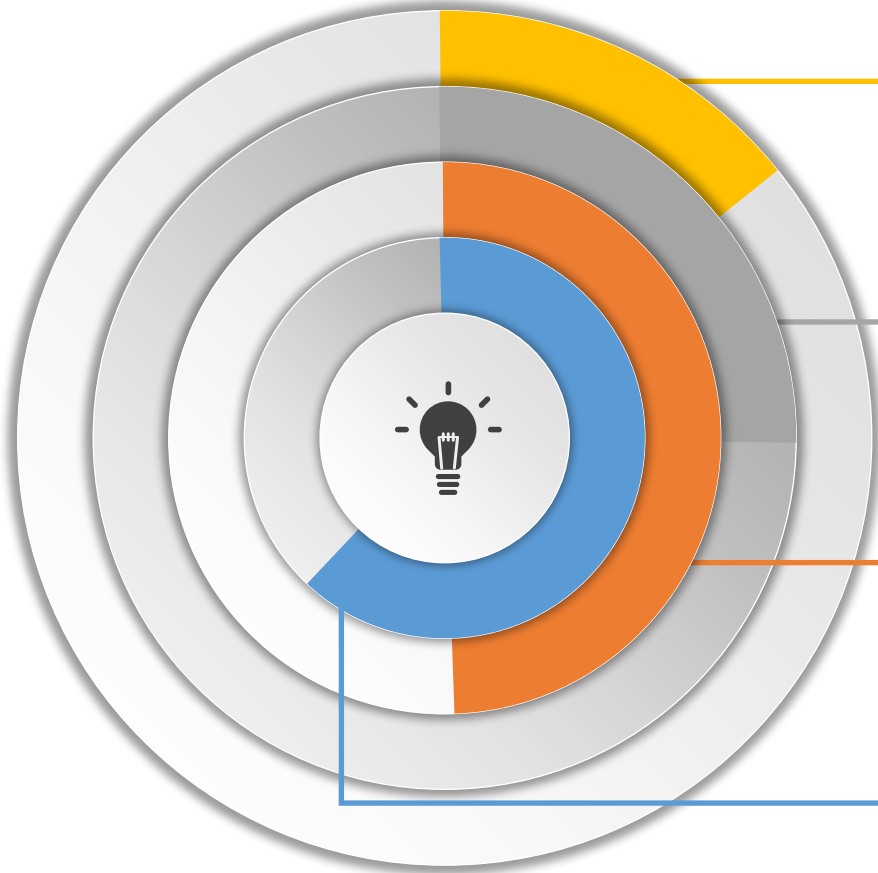
On 17 May 2016, the ICAI issued **Standard on Auditing (SA) 701** *Communicating key audit matters in the Independent Auditor's Report*. The most significant change to the auditor's report on the financial statements as a result of the issuance of SA 701 is a new requirement to describe key audit matters (KAMs) arising from the audit of the current period's financial statements in the auditor's report.



KAMs are matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. [SA 701.8]



# SA 701- Applicability of Key Audit Matters (KAM)



SA 701 applies to audits of complete sets of general purpose financial statements of **listed entities** (with securities listed in India or outside India).

However, entities which are in **the process of listing** are **not covered** under SA 701. They will get covered from the financial year in which they are listed.

It is applicable in **circumstances when the auditor otherwise decides** to communicate Key Audit Matters (KAMs) in the auditor's report.

It is also **applicable in case the law or regulation requires** an auditor to communicate KAM in the auditor's report.

# SA 701-Communicating Key Audit Matters in the Independent Auditor's Report

## Expected Benefits :

- Increased Confidence in Financial Statements.
- Enhanced communication about the audit directly from the auditor
- More informative, transparent and relevant auditor's report.
- Enhanced discussions between auditors and TCWG.
- Improved quality of financial reporting.



# SA 701-Communicating Key Audit Matters in the Independent Auditor's Report

## Challenges and Opportunities:

- Describing KAMs in a succinct and understandable manner.
- Early engagement between the auditor and those charged with governance.
- Additional time likely needed to finalise the auditor's report (depending on complexity of matters that are KAMs).



# Identifying KAM's

## Step 1 — Identify matters communicated with those charged with governance

- ✓ The first step in the process of identifying KAMs is to determine the matters communicated with those charged with governance in connection with the audit of the current period's financial statements
- ✓ Shall include those that will be most meaningful to investors and other financial statement users.
- ✓ Shall include those communicated orally or in writing throughout the entire audit or during reviews of interim financial information, including discussions led by management

# Identifying KAM's

**Step 2 — For each matter identified in Step 1, determine matters that required significant auditor attention**

The second step in the process of identifying KAMs is to determine whether the matters identified in Step 1 require significant auditor attention.



## **What does significant auditor attention mean?**

Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments. In turn, this often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters.

These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialised area of accounting or auditing to address these areas. [SA 701.A14]

# Identifying KAM's

**Step 3 — For each matter identified in Step 2, determine matters that were of most significance in the audit of the financial statements in the current period**



The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgment about their importance relative to other matters in the audit. [SA 701.A28]

The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit. [SA 701.A30]

# Identifying KAM's

**Step 4 — Document whether or not each matter identified in Step 3 was determined to be a KAM and the basis for such determination**



Paragraph 8 of SA 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgments.

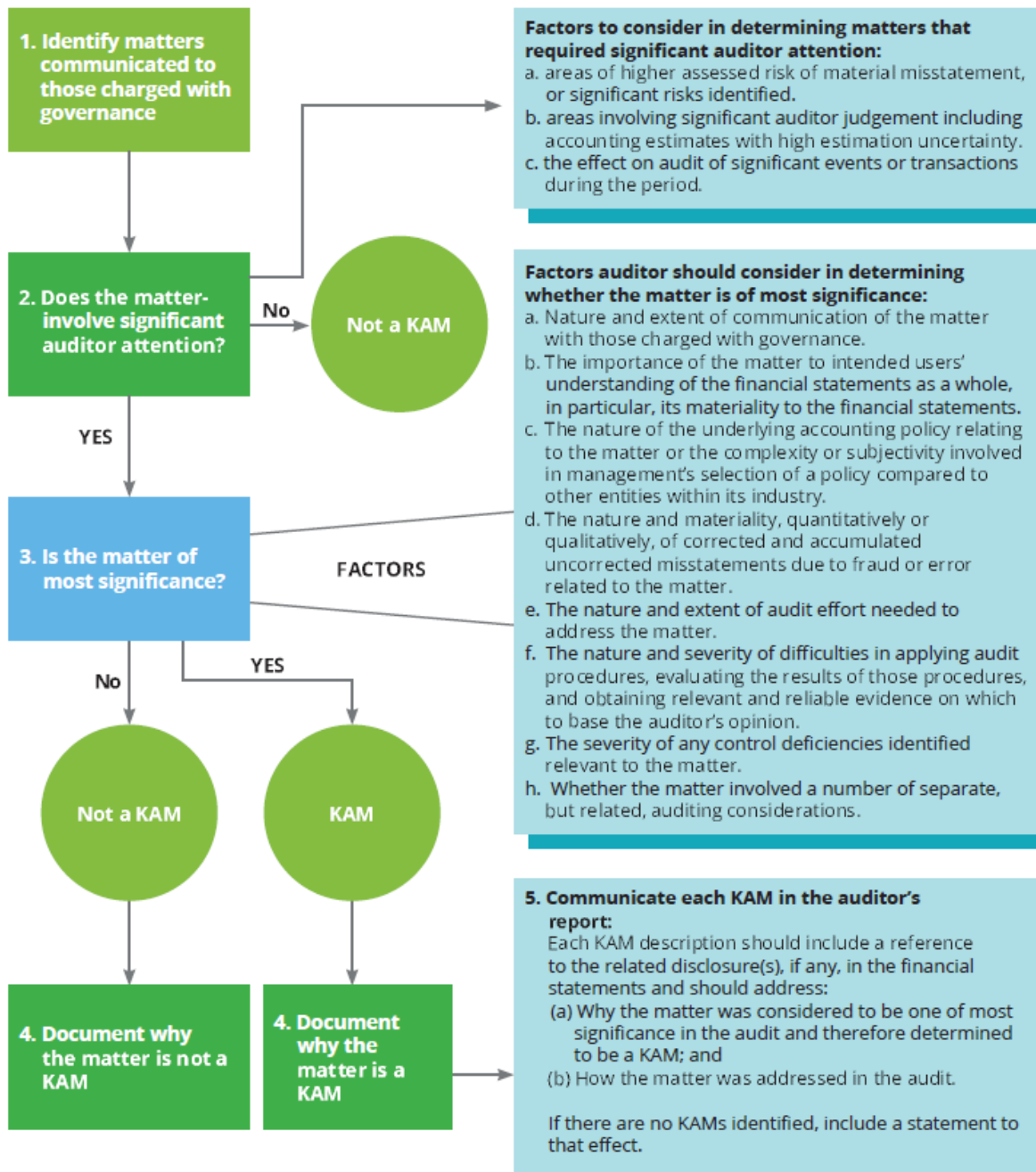
In the context of key audit matters, these professional judgments include the determination, from the matters communicated with those charged with governance, of the matters that required significant auditor attention, as well as whether or not each of those matters is a key audit matter. [SA 701.A64]

# Identifying KAM's

## Step 5 — Communicate each KAM in the auditor's report

- The final step in the process is to communicate each KAM in the auditor's report or, if there are no KAMs identified, include a statement in the auditor's report to that effect.
- Each KAM description should include a reference to the related disclosure(s), if any, in the financial statements and should address:
  - ✓ Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM;
  - ✓ How the matter was addressed in the audit.

## Process flow for the auditor to identify, document, and communicate KAMs



## Audit documentation:

### SA 701 documentation requirements:

The auditor should include in the audit documentation:

- (a) The matters that required significant auditor attention as determined in accordance with the factors stated in SA 701, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter;
- (b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters that give rise to a modified opinion in accordance with SA 705 (Revised) or a going concern event in accordance with SA 570 (Revised). (These matters should not be described under the KAM section and should be reported in accordance with the relevant SA); and
- (c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.

### Illustrative Example: Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

---

#### Fair Value — Level 3 Assets and Liabilities — Refer to Note Z to the financial statements

---

##### Key Audit Matter Description

The Company has assets and liabilities whose fair values are based on proprietary models and unobservable inputs. These assets and liabilities, classified as Level 3 assets and liabilities, are not actively traded, and their values can only be estimated using a combination of market prices, complex proprietary models, and subjective assumptions.

Auditing the proprietary models and unobservable inputs used by management to estimate the fair value of Level 3 assets and liabilities involved especially subjective and complex judgement.

---

##### How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the proprietary models and unobservable inputs used by management to estimate the fair value of Level 3 assets and liabilities included the following, among others:

- We tested the effectiveness of controls, including those related to model certification, price verification, daily profit and loss analysis, and collateral dispute resolution.
- We evaluated management's ability to accurately estimate fair value by comparing management's historical estimates to subsequent transactions, taking into account changes in market conditions subsequent to 31 March 20X8.
- We compared management's assumptions to external sources.
- With the assistance of our fair value specialists, we developed independent fair value estimates and compared our estimates to the Company's estimates.

### Do Note:

Communicating KAMs in auditors report **is not**:

- a substitute for disclosure in financial statements
- a substitute for auditor expressing a modified opinion when required
- a substitute for reporting in accordance with SA 570 (Revised) when a material uncertainty exists
- a substitute for EOM and Other Matters paragraph
- a separate opinion on individual matters

# Presentation of KAM

- ✓ KAM should be presented as a separate section after the basis for opinion section of an auditor's report.
- ✓ In case KAMs identified relates to a modification, a statement to this effect is to be included under the KAM heading.
- ✓ In case, 'material uncertainty relating to going concern' section is required as per revised SA 570, then KAM section is placed after that section.
- ✓ Based on the auditor's judgement as to the relative significance of the information included in the EOM paragraph, an EOM paragraph may be presented either directly before or after the KAMs section.

## Types of KAM's not required to be reported

- ✓ Under the following circumstances, a matter determined to be a KAM is not required to be communicated in the auditor's report:
  - a. Law or regulation precludes public disclosure about the matter.
  - b. The auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (This will not be applicable if the entity has publicly disclosed information about the matter.)
- ✓ In such a case, a written representation from management, and when appropriate, those charged with governance, could be obtained as to why public disclosure about the matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication.
- ✓ Apart from the above, there could be very limited situations (such as listed entity with very limited operations) where there are no KAMs to be communicated. However, in such a case also, KAM section will be given in the auditor's report.

# SA 720 (Revised)-The Auditor's Responsibilities Relating to Other Information – A Summary

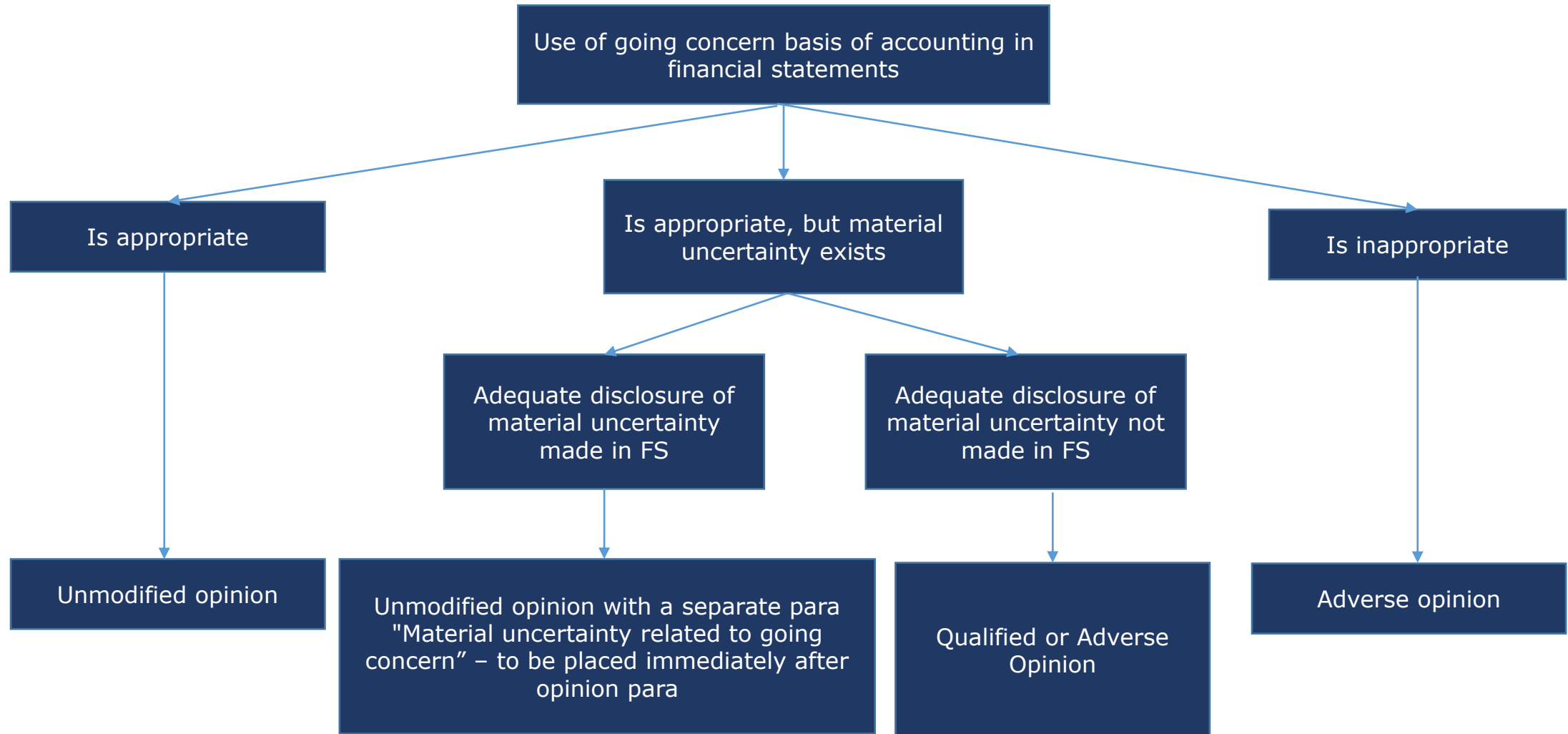
The revision of SA 720 aims to clarify and increase the auditor's involvement with other information – whether financial or non-financial information other than audited financial statements that is included in the entity's annual report.

- The auditors are not required to obtain assurance about the other information.
- The auditor's report will include a separate section on other information when the auditor has obtained some or all of the other information as of the date of the auditor's report.
- For audits of financial statements of listed entities, 'other information' section will also be included if the auditor expects to obtain other information after the date of the auditor's report.



# SA 570 Going Concern

The main implications / reporting requirements of SA 570 (Revised) for Auditor's Report are:

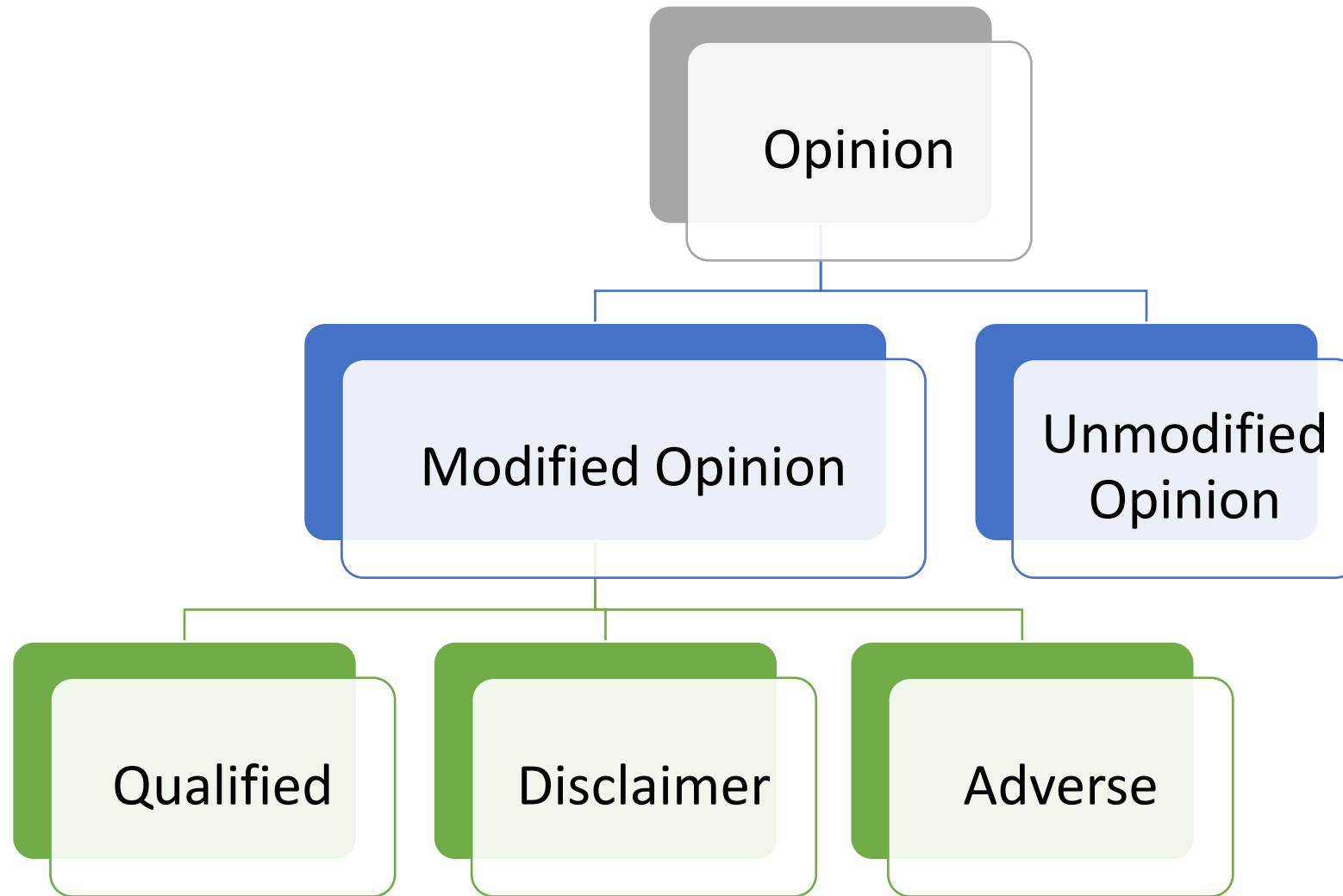


# SA 705 (Revised)-Modifications to the Opinion in the Independent Auditor's Report

- ✓ Applicable when the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.
- ✓ Also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.
- ✓ This This SA is effective for audits of financial statements for periods beginning on or after April 1, 2018.



# Audit Opinion as per SA 705 (Revised)



# Determining the need for Modification of audit opinion

The auditor shall modify the opinion in the auditor's report when:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.



# Determining the type of Modification to audit report

## Qualified Opinion

The auditor shall express a qualified opinion when:

- The auditor, having obtained **sufficient appropriate audit evidence**, concludes that misstatements, individually or in the aggregate, are **material, but not pervasive**, to the financial statements; or
- The auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, **could be material but not pervasive**.

## Adverse Opinion

- The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are **both material and pervasive** to the financial statements.

## Disclaimer of Opinion (in extremely rare circumstances involving multiple uncertainties)

- The auditor shall disclaim an opinion when the auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, **could be both material and pervasive**.

## Determining the type of Modification to audit report - Summary

	<b>Auditor's Judgement Regarding the Pervasiveness of the Matter</b>	
<b>Nature of Matter</b>	<b>Material but Not Pervasive</b>	<b>Material and Pervasive</b>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate evidence	Qualified opinion	Disclaimer of opinion

## Form and Content of the Auditor's Report When the Opinion is Modified

When the auditor modifies the audit opinion, the auditor shall use the heading

**“Qualified Opinion,” “Adverse Opinion,”  
or “Disclaimer of Opinion,”  
as appropriate, for the Opinion section.**



# SA 706 (Revised)-Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

- When the auditor includes a Key Audit Matters (as per SA 701) section in the auditor's report, this SA **addresses the relationship between key audit matters and any additional communication** in the auditor's report in accordance with this SA.
- SA 570 (Revised) establishes requirements and provides guidance about communication in the auditor's report relating to going concern.
- This SA is effective for audits of financial statements for periods beginning on or after 01st April, 2018.

For additional communication in the auditor's report when the auditor considers it necessary to:

- Draw users' attention to matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements
- Draw users' attention to any matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

# Emphasis of Matter Usage

The auditor shall include an Emphasis of Matter paragraph (with regards to matter presented or disclosed in the financial statements) in the auditor's report provided:

The auditor would not be required to modify the opinion in accordance with SA 705

The matter has not been determined to be a key audit matter as per SA701

---

Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter"

---

Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements

---

Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

# Other Matter Paragraph Usage

The auditor shall include an Emphasis of Matter paragraph (with regard to matter other than those that are presented or disclosed in the financial statements) in the auditor's report provided:

This is not prohibited by law or regulation;

When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading.

# Communication with TCWG

If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph.



# Standards on Auditing – Others

# SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

- This Standard establishes the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with SAs
- **Ethical Requirements Relating to an Audit of Financial Statements** — The auditor should apply the following fundamental principles of professional ethics relevant when conducting an audit of financial statements;
  - (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - e) Professional behavior
- **Professional Skepticism**— Professional skepticism includes being alert to, for example;
  - (a) Audit evidence that contradicts other audit evidence obtained;
  - (b) Information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence;
  - (c) Conditions that may indicate possible fraud;
  - (d) Circumstances that suggest the need for audit procedures in addition to those required by the SAs

# SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

- **Professional Judgment**— Professional judgment is necessary in particular regarding decisions about:
  - (a) Materiality and audit risk;
  - (b) The nature, timing, and extent of audit procedures used to meet the requirements of the SAs and gather audit evidence;
  - (c) Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor;
  - (d) The evaluation of management’s judgments in applying the entity’s applicable financial reporting framework;
  - (e) The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements
- **Sufficient Appropriate Audit Evidence and Audit Risk**— To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion

# SA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

**Audit Risk** — Audit risk is a function of the risks of material misstatement and detection risk.

The risks of material misstatement may exist at two levels:

- (a) The overall financial statement level; and
- (b) The assertion level for classes of transactions, account balances, and disclosures.

For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level

## **Conduct of an Audit in Accordance with SAs —**

- The auditor shall comply with all SAs relevant to the audit.
- The auditor shall have an understanding of the entire text of an SA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
- The auditor shall not represent compliance with SAs in the auditor's report unless the auditor has complied with the requirements of this SA and all other SAs relevant to the audit

## SA 210: Agreeing the Terms of Audit Engagements

- Auditor and client should agree on terms of engagement. Agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract
- The form and content of audit engagement letter may vary for each client, but would generally include reference to
  - (a) objective and scope of the audit of financial statements;
  - (b) responsibilities of the auditor;
  - (c) responsibilities of management;
  - (d) Identification of applicable financial reporting framework for the preparation of financial statements; and
  - (e) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.
- Other matters as per the circumstances should also be included
- In case of recurring audits, auditor should consider whether circumstances require the terms of engagement to be revised

# SA 220: Quality Control for an Audit of Financial Statements

- Quality control policies and procedures should be implemented at both level —
  - of audit firm and
  - on individual audits
- Ensure that all audits are conducted in accordance with Standards of Auditing
- Objectives of quality control policies to be adopted will incorporate
  - Professional Requirements,
  - Skills and Competence,
  - Assignment, Delegation,
  - Consultation,
  - Acceptance and
  - Retention of Clients,
  - Monitoring

# SA 230: Audit Documentation

- Audit documentation that meets the requirements of this SA and the specific documentation requirements of other relevant SAs provides (a) evidence of auditor's basis for a conclusion about the achievement of overall objective of audit; and (b) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements
- Audit Documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of audit and facilitates effective review and evaluation of audit evidence obtained and conclusions reached before finalizing auditor's report
- To document discussions of significant matters with management, those charged with governance, and others, including the nature of significant matters discussed and when and with whom the discussions took place
- Auditor may consider preparing and retaining a summary (Completion Memorandum) that describes significant matters identified during the audit and how they were addressed. SA 220 requires auditor to review audit work performed through review of audit documentation. Standards on Quality Control (SQC) 1 require firms to establish policies and procedures for timely completion of assembly of audit files. An appropriate time limit within which to complete the assembly of final audit file is ordinarily not more than 60 days after the date of auditor's report. SQC 1 requires firms to establish policies and procedures for retention of engagement documentation
- Retention period for audit engagements ordinarily is no shorter than ten years from the date of auditor's report, or, if later, the date of group auditor's report

# SA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

- Auditor is concerned with fraud that causes a material misstatement in financial statements
- Two types of intentional misstatements are relevant — misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets
- Primary responsibility of prevention and detection of frauds is of the management as well as those charged with governance. It is important that management, with oversight of those charged with governance; place a strong emphasis on fraud prevention which may reduce opportunities for fraud to take place and act as a deterrent
- Auditor is responsible for obtaining reasonable assurance that financial statement taken as a whole are free from material misstatement, whether caused by fraud or error. While auditor may be able to identify potential opportunities for fraud to be perpetrated, it is difficult for him to determine whether misstatements in judgment areas such as accounting estimates are caused by fraud or error
- Risk of auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud, because management is frequently in a position to directly or indirectly manipulate accounting records, present fraudulent financial information or override control procedures designed to prevent similar frauds by other employees. Auditor is responsible for maintaining an attitude of professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud

# SA 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

- Auditor shall identify and assess risks of material misstatement due to fraud at financial statement level, and at assertion level for classes of transactions, account balances and disclosures. Auditor must make appropriate inquiries of the management. Auditor must discuss with those charged with governance as they have oversight responsibility for systems for accounting risk, financial control and compliance with the law
- When auditor identifies a misstatement, s/he should consider whether such a misstatement may be indicative of fraud and if there is such an indication, s/he should consider the implications of misstatement in relation to other aspects of the audit, particularly the reliability of management representations
- When the auditor identifies a misstatement resulting from fraud, or a suspected fraud, s/he should consider auditor's responsibility to communicate that information to management, those charged with governance and, in some circumstances, when so required by laws and regulations, to regulatory and enforcement authorities also
- To obtain written representations from management
- To document the understanding of entity and its environment and the assessment of risks of material misstatement, responses to assessed risks of material misstatement and communications about fraud made to management, those charged with governance, regulators and others

# SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements

- To recognize that non-compliance by entity with laws and regulations may materially affect financial statements. It is management's responsibility to ensure that entity's operations are conducted in accordance with laws and regulations
- Auditor is not responsible for preventing non-compliance. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error
- Risk of non detection of material misstatements is higher with regard to material misstatements resulting from non-compliance with laws and regulations due to various factors. To obtain a general understanding of legal and regulatory framework applicable to the entity and how it is complying with that framework
- After obtaining general understanding, auditor should perform procedures to identify instances of non-compliance with these laws and regulations where non-compliance should be considered when preparing financial statements. Further, auditor should obtain sufficient appropriate audit evidence about compliance with those laws and regulations generally recognized by Auditor to have an effect on determination of material amounts and disclosures in financial statements

# SA 250: Consideration of Laws and Regulations in an Audit of Financial Statements

- To obtain written representations that management has disclosed all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements. This SA does not apply to other assurance engagements in which auditor is specifically engaged to test and report separately on compliance with specific laws and regulations. Whether an act constitutes a non-compliance can be determined only by a court of law
- The Standard envisages “engaging a legal advisor to assist in monitoring legal requirements” instead of “establishing a legal department” as one of the policies to ensure compliance with laws and regulations. The Standard, in larger entities, also envisages existence of a separate “compliance function” in addition to internal audit function and audit committee to supplement policies and procedures for ensuring compliance with laws and regulations

## SA 260: Communication with those Charged with Governance

- To communicate with those charged with governance, auditor's responsibilities in relation to financial statements audit, an overview of planned scope and timing of audit and significant findings from the audit
- Such matters include: Overall scope of audit; selection of/ changes in significant accounting policies; potential effect on financial statements of any significant risks and exposures, such as pending litigation; adjustments to financial statements arising out of audit that have a significant effect on entity's financial statements; material uncertainties related to events and conditions that may cast significant doubt on entity's ability to continue as a going concern, disagreements with management about matters that could be significant to entity's financial statements or auditor's report; expected modifications to auditor's report. Auditors should communicate matters of governance interest on timely basis
- Auditor's communication may be made orally or in writing. In case of oral communication, auditor should document their oral communications and response thereof

## SA 265: Communicating Deficiencies in Internal Control to those Charged with Governance and Management

- The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions
- The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.

## SA 299 (AAS 12): Responsibility of Joint Auditors

- Joint auditors should, by mutual discussion, divide audit work. Division of work would usually be in terms of audit of identifiable units or specified areas. Division of work may be with reference to items of assets or liabilities or income or expenditure or with reference to periods of time
- If a Joint auditor comes across matters which are relevant to areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or discussion with, or application of judgment by, other joint auditors, he should communicate the same to all other joint auditors in writing prior to finalization of audit
- Certain areas of work, owing to their importance or owing to the nature of work involved, would often not be divided and would have to be covered by all joint auditors
- Each joint auditor is responsible only for the work allocated to them, whether or not s/he has prepared a separate report on work performed by them

## SA 299 (AAS 12): Responsibility of Joint Auditors

- All joint auditors are jointly and severally responsible in respect of the audit work which is not divided amongst them, for the appropriateness of decisions taken by them concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors, for examining that the financial statements of the entity comply with disclosure requirements of relevant statute, for ensuring that audit report complies with the requirements of relevant statute and in respect of matters which are brought to the notice of joint auditors by any one of them and on which there is an agreement among joint auditors
- Each joint auditor is entitled to assume that other joint auditors have carried out their part of audit work in accordance with generally accepted audit procedures. Normally, joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report

# SA 300: Planning an Audit of Financial Statements

- Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. The objective of auditor is to plan the audit so that it will be performed in an effective manner
- Once the overall audit strategy has been established, an audit plan can be developed to address various matters identified in the overall audit strategy, considering the need to achieve the audit objectives through efficient use of auditor's resources
- To consider various matters in developing the overall plan like: terms of engagement; nature and timing of reports; applicable legal or statutory requirements; accounting policies adopted by the client; identification of significant audit areas; setting of materiality levels, etc.
- To obtain a level of knowledge of client's business that will enable them to identify events, transactions and practices that, in their judgment, may have a significant effect on financial information. Audit plan is more detailed than overall audit strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members

# SA 300: Planning an Audit of Financial Statements

- Engagement partner and other key members of engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members so as to enhance effectiveness and efficiency of planning process
- To plan the nature, timing and extent of direction and supervision of engagement team members and review of their work. Auditor shall document overall audit strategy, audit plan and any significant changes made during audit engagement to the overall audit strategy or audit plan, and reasons for such changes
- Audit planning ideally commences at the conclusion of previous year's audit, and along with related programme, it should be reconsidered for modification as the audit of their compliance and substantive procedures progress. For an initial audit, auditor may need to expand the planning activities because the auditor does not ordinarily have previous experience with the entity that is considered when planning recurring engagements

# SA 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

- To provide a basis for identification and assessment of risks of material misstatement at the financial statement and assertion levels, the auditor shall perform risk assessment procedures. Thus procedures shall include: Inquiries with management; Analytical Procedures; Observation and Inspection
- Where Auditor has performed other engagements with the entity, auditor shall consider whether information obtained is relevant for identifying the risk of material misstatement. If Auditor intends to use his/her previous experiences with the entity, he shall determine whether changes have occurred since previous audit that may affect its relevance on current audit
- To obtain an understanding of the following: Industry, regulatory and other external factors; Nature of entity; Selection and application of accounting policies; Objectives and strategies and related business risks; Measurement and review of entity's financial performance; Internal control
- SA 315 sets out five components of Internal control: Control environment; Entity's risk assessment process; the information system, including related business processes, relevant to financial reporting and communication; Control activities relevant to audit; Monitoring of controls

# SA 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment

- Usually, those controls which pertain to entity's objective of preparing financial statements are subject to risk assessment procedures
- Obtaining an understanding of entity and its environment including entity's internal control is a continuous, dynamic process of gathering, updating and analyzing information throughout the audit
- To identify and assess risks of material misstatement at financial statement level, and at assertion level for classes of transactions, account balances and disclosures
- Auditors are required to: Relate identified risks to what can go wrong at assertion level; Consider potential magnitude of risks in the context of financial statements; Consider the likelihood that risks could result in a material misstatement of financial statements
- Documentation should cover: Discussion among engagement team; Key elements of understanding obtained; Sources of information; Risk assessment process; the identified and assessed risks; Significant risks evaluated; Risks evaluated for which substantive procedures done
- Auditor uses professional judgment to determine the extent of understanding required. Auditor's primary consideration is whether the understanding that has been obtained is sufficient to meet the objective stated in the SA

# SA 320: Materiality in Planning and Performing an Audit

- SA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
- In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material
- These judgments provide a basis for:
  - Determining the nature, timing and extent of risk assessment procedures;
  - Identifying and assessing the risks of material misstatement; and
  - Determining the nature, timing and extent of further audit procedures
- For purposes of the SAs, performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures

# SA 320: Materiality in Planning and Performing an Audit

- The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially
- The audit documentation shall include the following amounts and the factors considered in their determination:
  - Materiality for the financial statements as a whole
  - If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures
  - Performance materiality and
  - Any revision of above as the audit progressed

# SA 330: The Auditor's Responses to Assessed Risks

- The objective is to obtain sufficient appropriate audit evidence about assessed risks of material misstatement, through designing and implementing appropriate responses to those risks
- Auditor shall design and implement overall responses to address assessed risks of material misstatement at financial statement level. To design and perform further audit procedures whose nature, timing and extent are based on and are responsive to assessed risks of material misstatement at assertion level
- In designing further audit procedures to be performed, the auditor shall:
  - a) Consider reasons for the assessment given to risk of material misstatement at the assertion level for each class of transactions, account balance, and disclosure
  - b) Obtain more persuasive audit evidence – the higher the auditor's assessment of risk
- When the auditor obtains audit evidence about operating effectiveness of controls during an interim period, the auditor shall:

# SA 330: The Auditor's Responses to Assessed Risks

- a) Obtain audit evidence about significant changes to those controls subsequent to the interim period;  
and
- b) Determine additional audit evidence to be obtained for the remaining period
- Based on the audit procedures performed and audit evidence obtained, auditor shall evaluate before conclusion of audit whether assessments of risks of material misstatement at assertion level remain appropriate
- Auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or contradict assertions in financial statements
- If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, auditor shall express a qualified opinion or a disclaimer of opinion
- If Auditor plans to use audit evidence about operating effectiveness of controls obtained in previous audits, auditor shall document conclusion reached about relying on such controls that were tested in a previous audit

# SA 402: Audit Considerations Relating to an Entity Using a Service Organization

- This SA specifically expands on how the user auditor applies SA 315 and SA 330
- The objectives of the auditor are (a) To obtain an understanding of the nature and significance of services provided by the service organization and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and (b) To design and perform audit procedures responsive to those risks
- The user auditor should obtain an understanding of the services provided by a service organization, including internal control
- The user auditor shall modify the opinion in the user auditor's report in accordance with SA 705 if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization relevant to the audit of the user entity's financial statements
- The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion
- If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion

# SA 450: Evaluation of Misstatements Identified during the Audit

- The objective of the auditor is to evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements
- To accumulate misstatements identified during the audit, other than those that are clearly trivial
- To determine whether the overall audit strategy and audit plan need to be revised if the nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material or the aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320 (Revised)
- To communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulations. To request management to correct those misstatements
- Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320, to confirm whether it remains appropriate in the context of the entity's actual financial results

# SA 450: Evaluation of Misstatements Identified during the Audit

- To communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in auditor's report, unless prohibited by law or regulation. Auditor's communication shall identify material uncorrected misstatements individually. Auditor shall request correction of uncorrected misstatements. Auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole
- To request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation
- The audit documentation shall include the amount below which misstatements would be regarded as clearly trivial, all misstatements accumulated during the audit and whether they have been corrected and the auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion

# SA 500: Audit Evidence

- Auditor is required to obtain sufficient appropriate audit evidence to enable them to draw reasonable conclusions on which they can base their opinion on financial information
- Auditor normally relies on evidence that is persuasive rather than conclusive in nature. Auditor may obtain evidence on a selective basis by way of either judgmental or statistical sampling procedures. Evidence is obtained through performance of compliance and substantive procedures
- Compliance procedures are tests designed to obtain reasonable assurance that internal controls on which audit reliance is placed are in effect. Substantive procedures are designed to obtain evidence as to completeness, accuracy and validity of data produced by accounting system
- Obtaining audit evidence from compliance procedures is intended to reasonably assure the auditor in respect of assertions of existence, effectiveness and continuity. Obtaining audit evidence from substantive procedures is intended to reasonably assure the auditor in respect of assertions of existence, rights and obligations, occurrence, completeness, valuation, measurement, presentation and disclosure

# SA 500: Audit Evidence

- To test the reliability, few generalizations are useful such as external evidence is more reliable than internal evidence, written evidence is more reliable than oral evidence and self obtained evidence is more reliable than obtained through the entity
- Auditor gains increased assurance when audit evidence obtained from different sources is consistent. Various methods for obtaining audit evidence include inspection, observation, inquiry and confirmation, computation and analytical review
- Emphasis is to be laid on considering relevance and reliability of audit evidence obtained during the course of audit, and focus is to be laid on designing and performing audit procedures to obtain relevant and reliable audit evidence

## SA 501: Audit Evidence — Specific Considerations for Selected Items

- This Standard on Auditing (SA) deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with SA 330, SA 500 (Revised) and other relevant SAs, with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of financial statements
- **Inventories:** Management ordinarily establishes procedures under which inventory is physically counted at least once in a year to serve as a basis for preparation of financial statements or to ascertain reliability of perpetual inventory system. When inventory is material to financial statements, auditor should obtain sufficient appropriate audit evidence regarding its existence and condition by attendance at physical inventory counting unless impracticable. If unable to attend physical inventory count on the date planned due to unforeseen circumstances, auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether changes in inventory between date of physical count and period end date are correctly recorded
- **Litigation and Claims:** The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:

## SA 501: Audit Evidence — Specific Considerations for Selected Items

- a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel;
  - b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel;
  - c) Reviewing legal expense accounts
- 
- **Segment Information:** Auditor considers segment information in relation to financial statements taken as a whole, and is not required to apply auditing procedures that would be necessary to express an opinion on segment information standing alone. Audit procedures regarding segment information ordinarily consist of obtaining an understanding of the methods used by management in determining segment information and performing analytical procedures and other audit tests appropriate in the circumstances

## SA 505: External Confirmations

- External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item
- Before making use of external confirmations, auditor should consider materiality, the assessed level of inherent and control risk, and how the evidence from other planned audit procedures will reduce audit risk to an acceptably low level
- To employ external confirmation procedures in consultation with the management. External confirmations are mostly sought for account balances and their components but they are not to be restricted to these items only
- The use of confirmation procedures may be effective in providing sufficient appropriate audit evidence when auditor determines higher level of assessed inherent and control risk
- The request for confirmations is to be made either at the date of financial statements or at a date close to it. Requests are to be designed to specific audit objectives
- Auditor's understanding of client's arrangements and transactions with third parties is important in determining the information to be confirmed. Auditor may use positive or negative external confirmation requests or a combination of both
- To consider whether there is any indication that external confirmations received may not be reliable. To evaluate the conformity between results of external confirmation process together with results from any other procedures performed. If Auditor seeks for an external confirmation and management requests the auditor not to do so, auditor should consider whether there are valid grounds for such a request and obtain evidence to support validity of management's requests

## SA 510: Initial Audit Engagements – Opening Balances

- In conducting an initial audit engagement, the auditor should obtain sufficient appropriate audit evidence that closing balances of preceding period have been correctly brought forward to current period or when appropriate, any adjustments have been disclosed as prior period items in the current year's Statement of Profit and Loss, the opening balances do not contain misstatements that materially affect financial statements for the current period and appropriate accounting policies are consistently applied
- To consider whether accounting policies followed in preceding period, based on which opening balances have been arrived at, were appropriate and that those policies are consistently applied. If the auditor concludes that the accounting policies have not been consistently applied or properly accounted for, the auditor has to express either a qualified or adverse opinion, as may be appropriate
- Ordinarily, current auditor can place reliance on closing balances contained in financial statements for preceding period, except when during performance of audit procedures for current period the possibility of misstatements in opening balances is indicated
- When financial statements of preceding period were not audited, auditor must adopt other procedures such as for current assets and liabilities. Some audit evidence can ordinarily be obtained as part of audit procedures performed during the current period and for non-current assets and liabilities such as fixed assets, investments and long-term debt, the auditor could ordinarily examine records underlying the opening balances

## SA 510: Initial Audit Engagements – Opening Balances

- To evaluate matters giving rise to modifications in prior period's financial statements for assessing the risk of material misstatement. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements in accordance with SA 315

## SA 520: Analytical Procedures

- The objectives of the auditor are: (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and (b) To design and perform analytical procedures near the end of audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with auditor's understanding of the entity
- Auditor should apply analytical procedures at overall review stages of audit as well as while applying substantive procedures
- Application of analytical procedures is based on the expectation that relationships among data exist and continue in absence of known conditions to the contrary. Presence of these relationships provides audit evidence as to completeness, accuracy and validity of data produced by the accounting system. However, reliance on results of analytical procedures will depend on auditor's assessment of the risk that analytical procedures may identify relationships as expected when, in fact, a material misstatement exists
- When analytical procedures identify significant fluctuations or relationships that are inconsistent with other relevant information or that deviate from predicted amounts, the auditor should investigate and obtain adequate explanations and appropriate corroborative evidence

## SA 530: Audit Sampling

- The auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence
- The objective of the auditor when using audit sampling is to provide a reasonable basis to draw conclusions about the population from which the sample is selected
- When designing an audit sample, auditor should consider the objectives of the audit procedure and characteristics of the population when designing an audit sample. To assist in efficient and effective design of sample, stratification may be appropriate. Stratification is the process of dividing a population into sub-populations
- When determining sample size, auditor should consider sampling risk, tolerable error, and expected error. Tolerable error is the maximum error in population that the auditor would be willing to accept and still conclude that the result from sample has achieved audit objective
- If Auditor expects error to be present in the population, a larger sample needs to be examined to conclude that actual error in the population is not greater than planned tolerable error. Auditor should select sample items in such a way that the sample can be expected to be representative of the population

## SA 530: Audit Sampling

- This requires that all items in the population have an opportunity of being selected. After having carried out those audit procedures on each sample item that are appropriate to particular audit objective, auditor should analyze any errors detected in the sample, project the errors found in the sample to the population and reassess sampling risk
- Auditor should investigate the nature and cause of any deviations or misstatements identified, and their possible effect on the objective of the particular audit procedure or other areas of audit. In order to conclude that a misstatement or deviation is an anomaly, the auditor is required to obtain a high degree of certainty that the misstatement or deviation is not representative of the population

## SA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

- Auditor should obtain sufficient appropriate audit evidence regarding reasonableness of accounting estimates including fair value accounting estimate and related disclosure in financial statements are adequate
- Accounting estimate means an approximation of a monetary amount in absence of a precise means of measurement. Determination of an accounting estimate may be simple or complex, depending upon the nature of item. Auditor should adopt one or a combination of following approaches in the audit of an accounting estimate:
  - a) review and test process used by management to develop the estimate;
  - b) use an independent estimate for comparison with that prepared by management; or
  - c) review subsequent events which confirm the estimate made
- Auditor should make a final assessment of reasonableness of estimate based on auditor's knowledge of the business and whether the estimate is consistent with other audit evidence obtained during audit. When there is a difference between auditor's estimate of the amount best supported by available audit evidence and the estimated amount included in financial statements, auditor should consider whether the amount requires adjustment and report accordingly

## SA 540: Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

- Auditor should adopt a risk-based approach to the responsibilities regarding accounting estimates, including fair value accounting estimates and related disclosures. A difference between the outcome of an accounting estimate and amount originally recognized or disclosed in financial statements does not necessarily represent a misstatement of financial statements
- Auditor should review the outcome of accounting estimates included in prior period financial statements. Auditor should obtain written representations from management whether management believes significant assumptions used by it in making accounting estimates are reasonable
- Audit documentation should include the basis for auditor's conclusions about reasonableness of accounting estimates and their disclosure that give rise to significant risks; and Indicators of possible management bias, if any

## SA 550: Related Parties

This Standard on Auditing (SA) deals with the auditor's responsibilities regarding related party relationships and transactions when performing an audit of financial statements

- Auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the framework
- To perform procedures to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions
- The auditor shall inquire of management regarding: (a) The identity of entity's related parties, including changes from prior period (b) The nature of relationships between the entity and these related parties; and (c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions
- To maintain alertness for related party information when reviewing records or documents

## SA 550: Related Parties

- To respond to the risks of material misstatement associated with related party relationships and transactions
- To Identify significant related party transactions outside the Entity's normal course of business
- To evaluate that related party transactions were conducted on terms equivalent to those prevailing in an Arm's Length Transaction
- To ensure that the accounting and disclosure of identified related party relationships and transactions are correct
- To obtain written representation from management for related party transactions
- Auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties
- Auditor shall include in the audit documentation, names of identified related parties and nature of related party relationships

## SA 560: Subsequent Events

- Subsequent events are significant events occurring between balance sheet date and the date of auditor's report. Auditor should consider effect of subsequent events on financial statements and on auditor's report. Auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of auditor's report that may require adjustment of, or disclosure in financial statements have been identified
- Procedures to identify events that may require adjustment of, or disclosure in financial statements would be performed as near as practicable to the date of auditor's report
- When Auditor becomes aware of events which materially affect financial statements, the auditor should consider whether such events are properly accounted for in financial statements
- When the management does not account for such events that auditor believes should be accounted for, auditor should express a qualified opinion or an adverse opinion, as appropriate

## SA 570: Going Concern

- Going concern assumption is a fundamental principle in the preparation of financial statements. Management should assess entity's ability to continue as a going concern even if the applicable financial reporting framework does not include an explicit requirement
- Auditor should evaluate appropriateness of management's use of going concern assumption in preparation of financial statements and conclude whether there is a material uncertainty about entity's ability to continue as a going concern that need to be disclosed in financial statements
- When planning and performing audit procedures and in evaluating the results thereof, auditor should perform further audit procedures when events or conditions are identified that cast significant doubt on the entity's ability to continue as a going concern. Indications of risk that continuance as a going concern may be questionable could come from financial statements, operational activities or from other sources
- These may be financial indicators, operating indicators or other indicators. If, on the presence of such indication, a question arises regarding appropriateness of going concern assumption, auditor should gather sufficient appropriate audit evidence to attempt to resolve, to the auditor's satisfaction, the question regarding entity's ability to continue in operation for foreseeable future

## SA 570: Going Concern

- After procedures considered necessary have been carried out, all information required has been obtained, and effect of any plans of management and other mitigating factors have been considered, auditor should decide whether the question raised regarding going concern assumption has been satisfactorily resolved
- Auditor, on the basis of his/her judgment and audit evidence will report, as deemed appropriate. In case where use of going concern assumption is appropriate but a material uncertainty exists, then (i) if adequate disclosure is made in financial statements, auditor should express an unmodified opinion but include an Emphasis of Matter paragraph in the auditor's report; (ii) if adequate disclosure is not made in financial statements, auditor should express a qualified or adverse opinion, as appropriate. In case where entity will not be able to continue as a going concern, auditor should express an adverse opinion if financial statements have been prepared on a going concern basis
- Auditor should communicate with those charged with governance when there are identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

## SA 580: Written Representations

- Written representations are written statements used to corroborate the validity of the premises, relating to management's responsibilities, on which an audit is conducted; and other audit evidence obtained with regard to specific assertions in financial statements
- Written representations in this context do not include financial statements, the assertions therein, or supporting books and records
- To request written representations from management with appropriate responsibilities for financial statements and knowledge of matters concerned
- To request management to provide a written representation that it has fulfilled its responsibility for the preparation and presentation of financial statements as set out in the terms of the audit engagement; and in accordance with applicable financial reporting framework; designing, implementing and maintaining of adequate internal control system; and completeness of information made available to the auditor
- To determine relevant parties from whom general and specific written representations are to be requested
- To evaluate the reliability of written representations and in case of doubt, should reconsider the reliability of other written representations and, take appropriate action. A management representation letter should be addressed to the auditor containing relevant information and be appropriately dated and signed

## SA 580: Written Representations

- A management representation letter should ordinarily be signed by members of management who have primary responsibility for the entity and its financial aspects, e.g., Managing Director, Finance Director. Auditor should disclaim an opinion on financial statements when the requested general written representations are not provided or are unreliable, and the auditor is unable to obtain sufficient appropriate audit evidence

# SA 600 (AAS 10): Using the work of Another Auditor

(Revised SA 600 on Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) is under consideration of the Board)

- When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of other auditor will affect the audit
- Auditor should consider professional competence of other auditor in the context of specific assignment if the other auditor is not a Chartered Accountant. Auditor should inform other auditor of matters such as areas requiring special consideration, procedures for identification of inter–component transactions and significant accounting, auditing and reporting requirements
- Auditor should consider significant findings of other auditor. There should be proper co–ordination and communication between the two auditors
- When the principal auditor concludes that work of other auditor cannot be used and s/he has not been able to perform sufficient additional procedures regarding financial information of the component audited by other auditor, s/he should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit
- The principal auditor would not be responsible in respect of the work entrusted to other auditors

## SA 610: Using the work of Internal Auditors

- This SA deals with the external auditor's responsibilities regarding the work of internal auditors when the external auditor has determined, in accordance with SA 315, that the internal audit function is likely to be relevant to the audit
  - The objectives of the external auditor, where the entity has an internal audit function that the external auditor has determined is likely to be relevant to the audit, are to determine whether, and to what extent, to use specific work of the internal auditors and if so, whether such work is adequate for the purposes of the audit
  - External auditor should determine whether and to what extent to use the work of the internal auditors. In determining whether the work of the internal auditors is likely to be adequate for purposes of the audit, the external auditor shall evaluate the objectivity of the internal audit function, the technical competence of the internal auditors, whether the work of the internal auditors is likely to be carried out with due professional care and whether there is likely to be effective communication between the internal auditors and the external auditor
  - In order for the external auditor to use specific work of the internal auditors, the external auditor shall evaluate and perform audit procedures on that work to determine its adequacy for the external auditor's purposes

## SA 610: Using the work of Internal Auditors

- To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether the work was performed by internal auditors having adequate technical training and proficiency, the work was properly supervised, reviewed and documented, adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions, conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed and any exceptions or unusual matters disclosed by the internal auditors are properly resolved
- When the external auditor uses specific work of the internal auditors, the external auditor shall document conclusions regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work

## SA 610: Using the work of Internal Auditors

- To determine the adequacy of specific work performed by the internal auditors for the external auditor's purposes, the external auditor shall evaluate whether the work was performed by internal auditors having adequate technical training and proficiency, the work was properly supervised, reviewed and documented, adequate audit evidence has been obtained to enable the internal auditors to draw reasonable conclusions, conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed and any exceptions or unusual matters disclosed by the internal auditors are properly resolved
- When the external auditor uses specific work of the internal auditors, the external auditor shall document conclusions regarding the evaluation of the adequacy of the work of the internal auditors, and the audit procedures performed by the external auditor on that work

## SA 620: Using the Work of an Auditor's Expert

- This SA deals with the auditor's responsibilities regarding the use of an individual or organization's work in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence
- The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert
- The objectives of the auditor are to determine whether to use the work of an auditor's expert and if using the work of an auditor's expert, to determine whether that work are adequate for the auditor's purposes
- If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert
- The nature, timing and extent of the auditor's procedures with respect to the requirement of this SA will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including the nature of the matter to which that expert's work relates, the risks of material misstatement in the matter to which that expert's work relates, the significance of that expert's work in the context of the audit, the auditor's knowledge of and experience with previous work performed by that expert and whether that expert is subject to the auditor's firm's quality control policies and procedures

## SA 620: Using the Work of an Auditor's Expert

- The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity for the auditor's purposes. In the case of an auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity
- The auditor shall agree, in writing when appropriate, on the following matters with the auditor's expert:
- The nature, scope and objectives of that expert's work;
- The respective roles and responsibilities of the auditor and that expert;
- The nature, timing and extent of communication between the auditor and that expert, including the form of any report to be provided by that expert; and
- The need for the auditor's expert to observe confidentiality requirements
- The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including:
- The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;

## SA 620: Using the Work of an Auditor's Expert

- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
- If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data
- The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the audit opinion

## SA 710 (Revised): Comparative Information– Corresponding Figures and Comparative Financial Statements

- The objectives of the auditor are to obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and to report in accordance with the auditor's reporting responsibilities
- The frameworks and methods of presentation that are referred to in this SA are corresponding figures where amounts and other disclosures for preceding period are included as an integral part of current period financial statements and Comparative Financial Statements where amounts and other disclosures for preceding period are included for comparison with financial statements of current period
- Auditor should obtain sufficient appropriate audit evidence that the comparative information meet the requirements of relevant financial reporting framework. This involves verifying whether accounting policies used for corresponding figures are consistent with those of current period and whether corresponding figures agree with amounts and other disclosures presented in prior period

## SA 710 (Revised): Comparative Information– Corresponding Figures and Comparative Financial Statements

- If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report that the financial statements of the prior period were audited by the predecessor auditor; the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and the date of that report. When auditor's report on prior period, as previously issued, included a qualified opinion or a disclaimer of opinion or an adverse opinion and concerned matter is not resolved, auditor's report should also be modified regarding corresponding figures
- When prior period financial statements are not audited, incoming auditor should state the fact in auditor's report in an Other Matter paragraph
- When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed

## SA 720: The Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements

- The objective of the auditor is to respond appropriately when documents containing audited financial statements and auditor's report thereon include other information that could undermine the credibility of those financial statements and auditor's report
- The auditor is not required to give his/ her opinion on other information, not having any responsibility of determining whether or not other information is properly stated, if there is no separate requirement in particular circumstance of the engagement. However, the auditor reads other information because the credibility of audited financial statements may be undermined by material inconsistencies between audited financial statements and other information and if found, to determine whether the audited financial statements or other information needs to be revised
- To make appropriate arrangements with management or those charged with governance to obtain the other information prior to the date of the auditor's report. If material inconsistencies are identified prior to the date of the auditor's report, and the revision of audited financial statement is necessary and the management refuses to make the revision, auditor is required to modify his/ her opinion. Further, if revision of other information is necessary, and management refuses to make the revision, auditor is required to communicate the matter to those charged with governance and also provide paragraph in the auditor's report on other matter; or withdraw from the engagement, if permitted by laws or regulations

## **SA 720: The Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements**

- If material inconsistencies are identified subsequent to the date of the auditor's report, and revision of audited financial statement is necessary, the auditor is required to perform the procedures given in SA 560, "Subsequent Events". If, on reading other information for the purpose of identifying material inconsistencies, auditor becomes aware of an apparent material misstatement of fact, auditor should discuss the matter with management and if the management refuse to correct it, communicate the same to those charged with governance and take further appropriate actions

## SA 800: Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

- The objective of the auditor, when applying SAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to: (a) The acceptance of the engagement; (b) The planning and performance of that engagement; and (c) Forming an opinion and reporting on the financial statements
- In an audit of special purpose financial statements, the auditor shall obtain an understanding of: (a) The purpose for which the financial statements are prepared; (b) The intended users; and (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances
- The auditor shall determine whether application of other SAs requires special consideration in the circumstances of the engagement. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements

## **SA 800: Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks**

- In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based
- The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose

## **SA 805: Special Considerations– Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement**

- The objective of the auditor, when applying SAs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to: (a) acceptance of the engagement; (b) planning and performance of that engagement; and (c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of financial statement
- SA 200 requires the auditor to comply with all SAs relevant to the audit. If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SAs is practicable
- SA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. This shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element

## **SA 805: Special Considerations– Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement**

- The auditor shall consider whether the expected form of opinion is appropriate in the circumstances
- The auditor shall apply the requirements in SA 700, adapted as necessary in the circumstances of the engagement
- If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement. If the opinion in the auditor's report on an entity's complete set of financial statements is modified, or that report includes an Emphasis of Matter paragraph or an Other Matter paragraph, the auditor shall determine the effect that this may have on the auditor's report on a single financial statement or on a specific element of those financial statements

## SA 810: Engagements to Report on Summary Financial Statements

- SA 810 deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor
- The objectives of the auditor are to: (a) Determine whether it is appropriate to accept the engagement to report on summary financial statements; (b) Form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and (c) Express clearly that opinion through a written report that also describes the basis for that opinion
- The auditor shall, ordinarily, accept an engagement to report on summary financial statements in accordance with this SA only when the auditor has been engaged to conduct an audit in accordance with SAs of the financial statements from which the summary financial statements are derived
- Before accepting an engagement to report on summary financial statements, the auditor shall: (a) Determine whether the applied criteria are acceptable; (b) Obtain the agreement of management that it acknowledges and understands its responsibility
- The auditor shall perform the prescribed procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements

## SA 810: Engagements to Report on Summary Financial Statements

- When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the phrases enumerated in this SA
- The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements
- If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements
- If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement
- If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document



# Ethics and professional ethics

## Ethics:

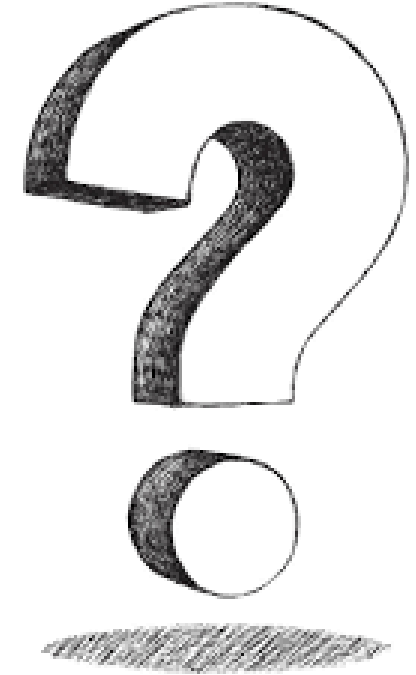
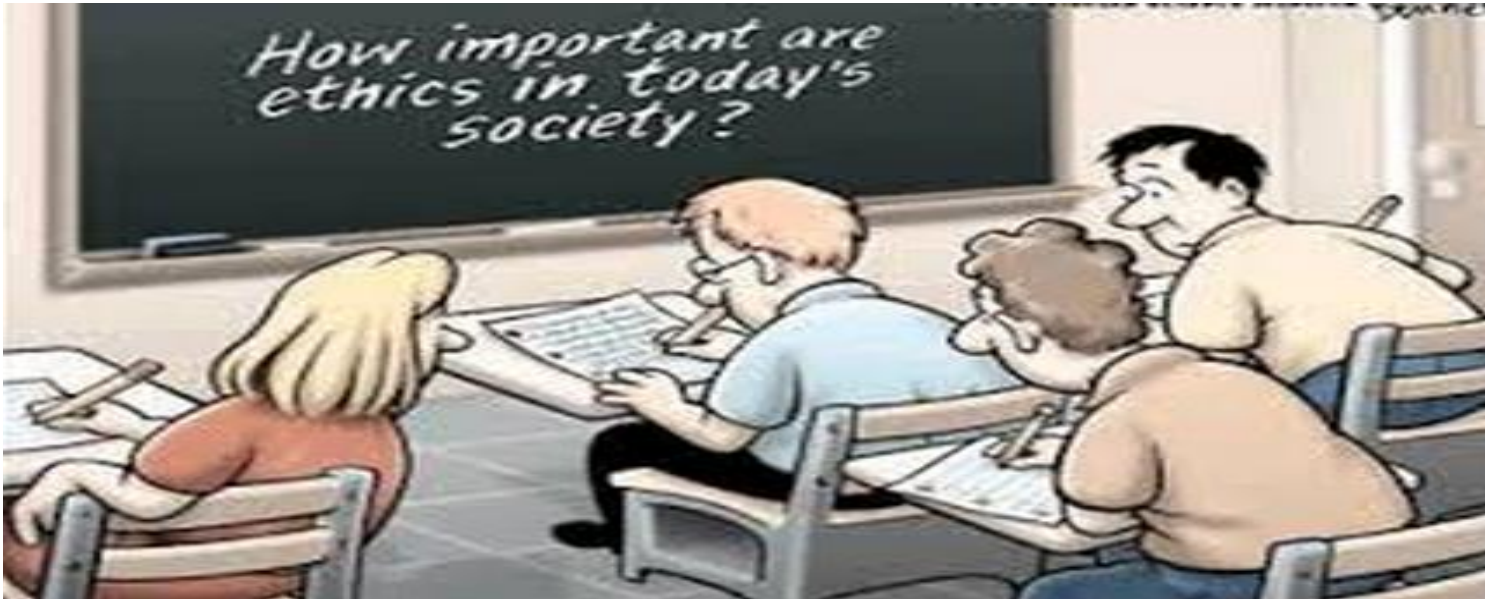
- Moral principles which govern person's behavior, or the conduct of an activity.
- It is a branch of knowledge that deals with moral principles.

## Professional ethics:

- Consists of personal, organizational, and corporate standards of behavior expected for professionals.
- CAs as professionals, are engaged in building trust towards various stakeholders.
- The Code of Ethics establishes ethical requirements for CAs

# Why Code of Ethics

- Essential for commanding the respect and confidence of the regulators and public at large.
- Conduct of Members is regulated under the Chartered Accountants Act, 1949 and the regulations framed thereunder.





# What is Code of Ethics?

Essentially a set of professional ethical principles & standards, regulating the relationship of CAs with clients, employers, employees, fellow members of the group and the general public.

# Code of Ethics - ICAI

- The Institute has been a forerunner in formulation and compliance with the contemporary professional standards
- The Code of Ethics for the profession is indeed one of those standards
- It is dynamic to cater to requirements of the changing times
- It undergoes the revision and evolution, as much as necessary



# Code of Ethics

- ICAI published the Code of Ethics for the first time in 1963, comprising of ethical principles and commentary on the clauses of First and Second schedules to the CA Act, 1949
- The Code has been revised 12 times so far and the latest i.e., 12th Edition has been released in 2019-20.



# Code of Ethics

- 11<sup>th</sup> Edition published in 2009 was aligned for the first time with the IESBA Code of Ethics, 2005.

- It was divided into:

Part A – Containing provisions of IESBA Code 2005 duly modified to suit our conditions.

Part B – Containing the provisions of Indian Laws applicable to CAs such as CA Act, CA Regulations, Council decisions etc.,

# Revision to Code of Ethics

- Since 2009 many changes have taken place in our domestic laws viz.,
  - Amendments in CA Act, CA Regulations, New / modifications to Council Guidelines / Clarifications
  - Revision of Auditing and Accounting Standards
  - New Companies Act, 2013, etc.,
- To make the code aligned with the IESBA's Revised Code 2018 and to be in sync with the changed domestic laws, the ICAI revised the Code of Ethics and released the 12<sup>th</sup> Edition in 2019 -20.
- The New Code is a significantly large document by imposing several new restrictions, in particular for PIE, taxation services to audit clients, assessments for threat to independence, NOCLAR etc. and it shows that its heart is in the right place.



# Applicability

**The revised code of ethics (2019) came into force w.e.f. 1<sup>st</sup> July 2020**

The below provisions are applicable from 1st October 2022 with certain amendments (refer subsequent slides)

- Responding to Non-Compliance of Laws and Regulations (NOCLAR) [Sections 260 and 360]
- Fees - Relative Size [Paragraphs 410.3 to R410.6]
- Taxation Services to Audit Clients [Subsection 604]

## Significant Amendments - Fees - Relative Size [Paragraphs 410.3 to R410.6]

S.No.	Existing provision	Revised provision
1.	Disclosure is required where for two consecutive years, the gross annual professional fees from audit client represent more than 15% of the total fees of the firm.	<p>Differentiated disclosure requirements:-</p> <p><b>For Non-Public Interest Entities (PIE):</b> Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 40% of the total fees of the firm.</p> <p><b>For public interest entities:</b> Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 20% of the total fees of the firm.</p>
2.	Exemption from applicability of the provision where total Fees received by Firm does not exceed INR 5 lacs	Exemption from applicability of the provision where total Fees received by Firm does not exceed INR 20 lacs.
3.	Exemption from the applicability of the provision in the case of audit of government Companies, public undertakings, nationalized banks, public financial institutions or where appointments of auditors are made by the Government.	In addition to these categories, 'Regulators' has been added.
4.	Disclosure to Those Charge with Governance of audit client	Disclosure to the Institute
5.	Pre-Issuance review or Post issuance Review: Action to be taken to address the threat created due to fees dependency as aforesaid.	Repealed

## Significant Amendments - NOCLAR applicable to Professional Accountants in service (Section 260)

S.No.	Existing provision	Revised provision
1.	Senior professional accountants in service (“senior professional accountants”) are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization’s human, financial, technological, physical and intangible resources.	No Change. It is further explained that the senior professional accountants refer to key managerial personnel.
2.	Applicable to Audit engagement of all listed entities	Applicable to Audit engagements of entities the shares of which are listed on recognized stock exchange(s) in India and have net worth of INR 250 crores or more. The applicability of Section 360 will subsequently be extended to all listed entities, at the date to be notified later.
3.	The term “Audit Engagement” defined in Glossary as applicable to entire Code: - “A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation”	No change in definition with respect to rest of the Volume-I of Code of Ethics. “For the purpose of Section-360 “Audit” or “Audit engagement” shall mean a reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements give a true and fair view in accordance with an applicable financial reporting framework”.
4.	Applicable to all employees of listed entities	Applicable to Senior Professional Accountants in service, being employees of listed entities.
5.	Measures to be taken in case of imminent breach.	Repealed

## Significant Amendments - Tax Services to Audit Clients [Subsection 604]

S.No.	Existing provision	Revised provision
1.	In case of Assistance in the resolution of Tax disputes, the term “Court” is explained as under: - “What constitutes a “Court” depends on how tax proceedings are heard in India”	In case of Assistance in the resolution of Tax disputes, the term “Court” is explained as under: - “For the purpose of this subsection, “Court” does not include a Tribunal”.

# Key changes In code of ethics

## Most important changes in the 2019 code:

- Responding to Non-Compliance of Laws and Regulations (NOCLAR).
- If fees from single client from audit services exceeds 15% of total fee of the firm consecutively for 2 years – duty is to communicate to TCWG and to take safe guards.  
[Not applicable if the gross fee of the firm per annum is <INR 5 lakhs and also fee from PSUs is not included in the total fee]
- Further restrictions on providing Taxation and Management services to audit clients.
- Independence requirements for Audit and Review Engagements and other assurance engagements is differentiated.
- Duty of Accountants in case of unintentional breach of independence standards.
- Increased clarity of responsibility for compliance – Firms, Network Firms, Individuals within Firms.
- Use of the word Professional Accountant (PA)



# Substantial Changes in Code of Ethics (2009 V/s 2019)



Description	2009 Code	Revised 2019 Code
Responding to Non-Compliance of Laws and Regulations (NOCLAR)	No Provision	The new provision helps Professional Accountants (PA) in dealing with omission or commission, committed by a client contrary to prevailing laws or regulations and in deciding how best to serve the public interest in these circumstances.
Restrictions on Taxation services to Audit clients	No prohibition on Taxation services to Audit clients	States different kinds of taxation services that might create a self review or advocacy threat <ul style="list-style-type: none"> <li>• Tax return preparation – no threat</li> <li>• Tax Calculations for the purpose of preparing accounting entries – self-review threat</li> <li>• Tax planning / assistance in resolving disputes – might create self-review threat</li> </ul>
Prohibition of Management Responsibilities to the audit clients	No provision	The firm shall not assume a management responsibility for an audit client.
Restriction on Fees from an audit client	Recommendatory 40% restriction on fees from a single audit client	As per the revised code, where for two consecutive years, total gross annual professional fees from the audit client and its related entities represent more than 15% of the total fees received by the firm, the firm shall disclose to Those charged with Governance (TCWG)

# Substantial Changes in Code of Ethics (2009 V/s 2019) contd..



Description	2009 Code	Revised 2019 Code
Duty of accountant in case of unintentional breach of Independence Standards	No Provision	States to mentions steps to be taken in case of breach of Independence Standards i.e., Parts 4A and 4B.  An accountant who identifies a breach shall evaluate significance of breach and its impact on his/her ability to comply with the fundamental principles.
Independence Requirements	States Independence Requirements for assurance engagements	Independence requirements for Audit and Review Engagements and other Assurance engagements differentiated
Independence Standards	No characterization as Standards	Independence sections re-characterized as “International Independence Standards”
Changes in Advertisement Guidelines & Council General Guidelines	No specific code mentioned Sharing of Firm details during interview not to result in publicity	<ul style="list-style-type: none"> <li>Member’s / firm’s name allowed in TV / movie credits, provided not mentioned differently from other persons</li> <li>For interviews, any detail to be given only on a specific question , and of factual nature only</li> </ul>

# Key Audit partner

## Code Of Ethics 2009:

- Not mentioned in ICAI Code of Ethics, 2009

## Code of Ethics, 2019:

Defined in 2019 Code (Volume-I) which is defined as under:-

- “The Engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.”



AUDIT

# Public interest Entity

## Code Of Ethics 2009:

- Not mentioned in ICAI Code of Ethics, 2009

## Code of Ethics, 2019:

- PIE is defined as :-
- (i) A listed entity; or
- (ii) An entity:
- Defined by regulation or legislation as a public interest entity; or
- For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.
- For purpose of this definition, it may be noted that Banks and Insurance Companies are to be considered as Public Interest Entities.



# Professional Accountant

- IESBA Code of Ethics uses the term “Professional Accountant”
- Same term was adopted in 2009 edition, also continued in 2019 (Volume-I) of the Code of Ethics
- Defined in the Code of Ethics as “An individual who is a member of the Institute of Chartered Accountants of India.”
- IESBA Code of Ethics uses the term “professional accountants in business” implying members who are employees. Modified to “professional accountant in service” in Code in line with usage in CA Act, 1949



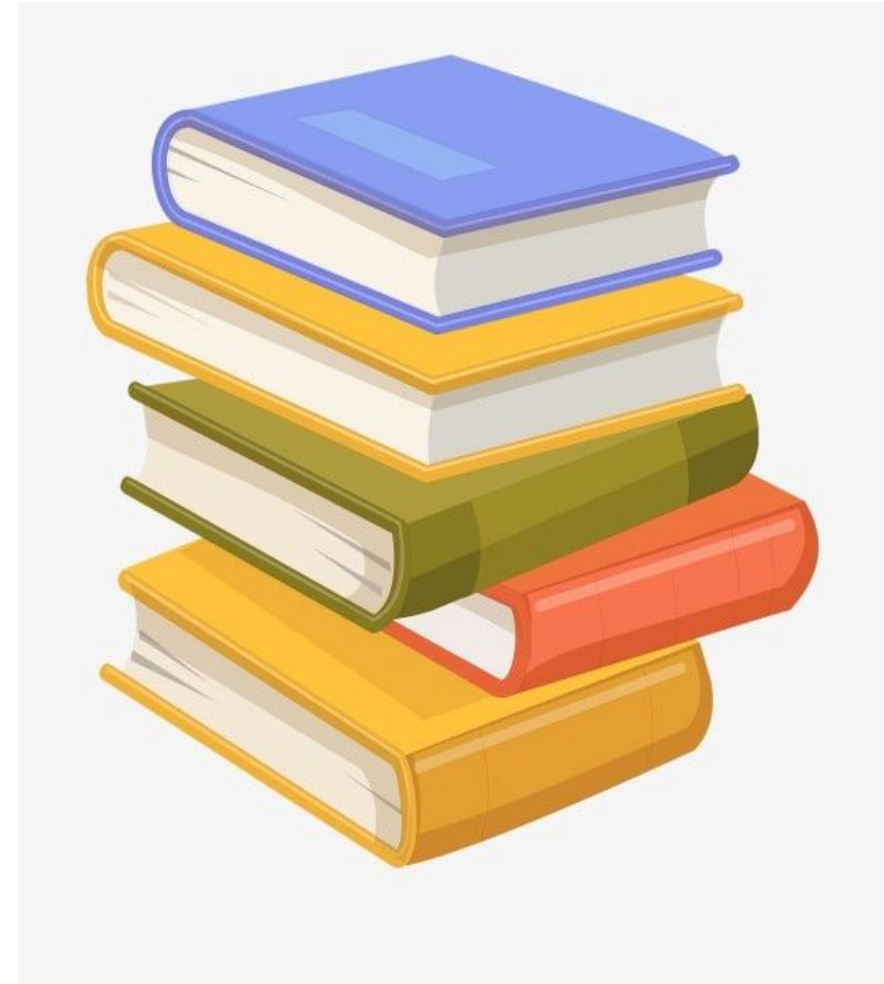
# Composition of Code Of Ethics

**Code of Ethics 2019 is divided into 3 volumes:**

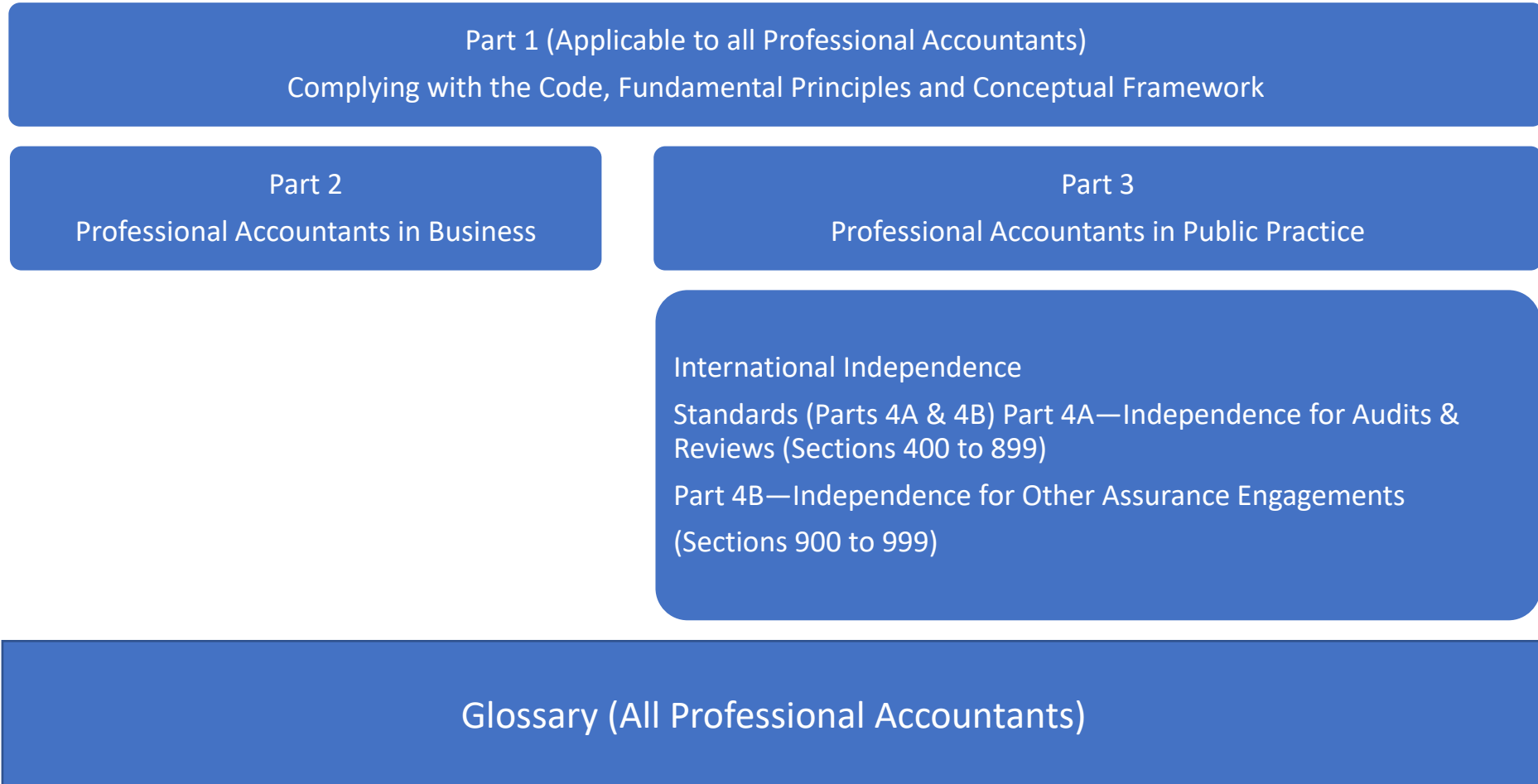
Volume – 1 : Principles based on IESBA's code 2018

Volume – 2: Domestic provisions governing the members.

Volume – 3: Disciplinary Cases decided so far.



# Overview of the structure of Code of Ethics,2019 (Volume-I)

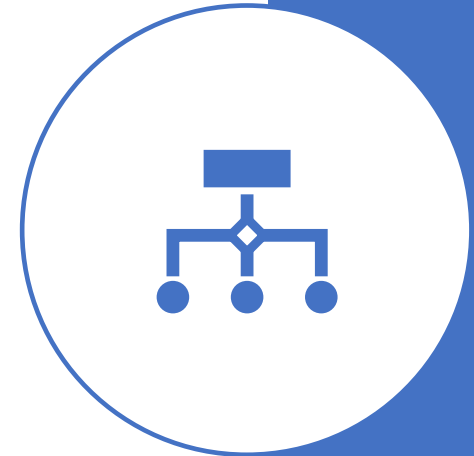


# PART – 1 of Volume – 1 (Secs.100 to 199)

Complying with code, Fundamental Principles and conceptual frame work:

- Every Professional Accountant (PA) shall Comply with the Code (Sec.100)
- If situation demands, shall look at other Laws too
- Every PA shall comply with each of the following Fundamental Principles (FPs) for PAs (Sec.110)
  - Integrity (Sec.111) : To be straight forward and honest in all professional & business relationships
  - Objectivity (Sec.112) :
    - Not to compromise professional or Business judgements because of bias, conflict of interest or undue influence of others.
  - Professional competence and due care (Sec.113):
    - to attain and maintain professional knowledge and skills
    - to act diligently in accordance with Tech/ Professional Standards.
  - Confidentiality (Sec.114):
    - To respect the confidentiality of information acquired in the course of professional Business relationships
  - Professional Behaviour (Sec.115):
    - To comply with relevant laws and avoid any conduct that might discredit the profession

A PA who identifies a breach of code shall evaluate the significance of the breach and its impact on his ability to comply with FPs.



# Conceptual Framework (Sec.120):

- Circumstances in which a PA operate might create threats to compliance with one or more FPs.
- A PA shall apply the conceptual frame work to identify, evaluate and address the threats to compliance with the FPs.
- Conceptual framework specifies an approach for a PA for compliance with the Fundamental Principles.
- When applying the conceptual frame work, the PA shall:
  - Exercise professional judgement
  - Remain alert for new inf. & to changes in facts and circumstances.
  - Use the reasonable and informed third party test.

# Threats and safeguards

## Identification of Threats:

A PA shall identify the threats to compliance with FPs.

Threats to compliance with the FPs fall into one or more of the following categories :

1. **Self Interest threat** – the threat that a Financial or other interest will inappropriately influence a PA's judgment/behaviour
2. **Self review threat** – the threat that a PA will not appropriately evaluate the results of a previous judgement made.
3. **Advocacy threat** – the threat that a PA will promote a client / employer's position to the point that his objectivity is compromised.
4. **Familiarity threat** – the threat that due to a long / close relationship with a client /employer, a PA will be too sympathetic to their interests.
5. **Intimidation threat** – the threat that a PA will be deterred from acting objectively because of actual or perceived pressures / undue influences.

A circumstance might create more than one threat and a threat might affect compliance with more than one FP.

# Threats and safeguards (contd.)

## Evaluating Threats :

- While evaluating the threats, a PA shall look at whether a threat is at an acceptable level
- Consider all the factors relevant in evaluating the level of threats:
  - Leadership with ethical behavior, systems of corporate oversight
- Consideration of new information or changes in facts & circumstances
- If new information results in identification of a new threat, it must be addressed.
- Addressing Threats:
  - A PA shall address the identified threats by eliminating or reducing them to an acceptable level by :
    - Eliminating the circumstances including interests / relationships that are creating the threats
    - Applying safeguards to reduce the threats to an acceptable level
    - Declining or ending the specific professional activity



## Key Considerations for Audits, Reviews and other Assurance Engagements:

- 
- Independence of PAs
  - Independence standards
  - Professional scepticism
  - Compliance with Fundamental Principles.



# Key requirements for PA's in service

## PART -2

### Applicable to PAs in Service [Sec.200 to 270]

#### Applying the conceptual frame work (Sec.200)

- A PA shall comply with the fundamental principles and apply the conceptual frame work to identify, evaluate and address threats to compliance with the FPs.
- A PA may find threats to compliance with FPs in the following areas:

#### Conflict of interest (Sec.210)

- Not to allow a conflict of interest to compromise professional / business judgment.

#### Preparation and presentation of information (Sec.220)

- To follow the relevant reporting frame work; to present in a manner not to mislead / influence; exercise professional judgment and not to omit anything intentionally.

#### Acting with sufficient expertise (Sec.230)

- A PA shall not intentionally mislead an employer as to the level of expertise / experience possessed.

## Key Requirements For PA's in Service (contd.)

- **Financial interests, compensation and incentives linked to financial reporting and decision making (Sec.240)**
  - Shall not manipulate information or use confidential information for personal gain / financial gain of others
- **Inducements, including gifts and hospitality (Sec.250)**
  - Shall not offer, or encourage others to offer, any inducement with an intent to improperly influence the behaviour of the recipient.
  - Immediate or close family members are also covered.
- **Responding to NOCLAR (Sec.260) [for listed entities only]**  
(Explained in Upcoming Presentation)
- **Pressure to breach the fundamental principles (Sec.270)**
  - Shall not allow pressure from others to result in a breach of compliance with the FPs and Shall not place pressure on others to result in the other individuals breaching the FPs.

# NOCLAR



LAW

REQUIREMENTS



REGULATIONS

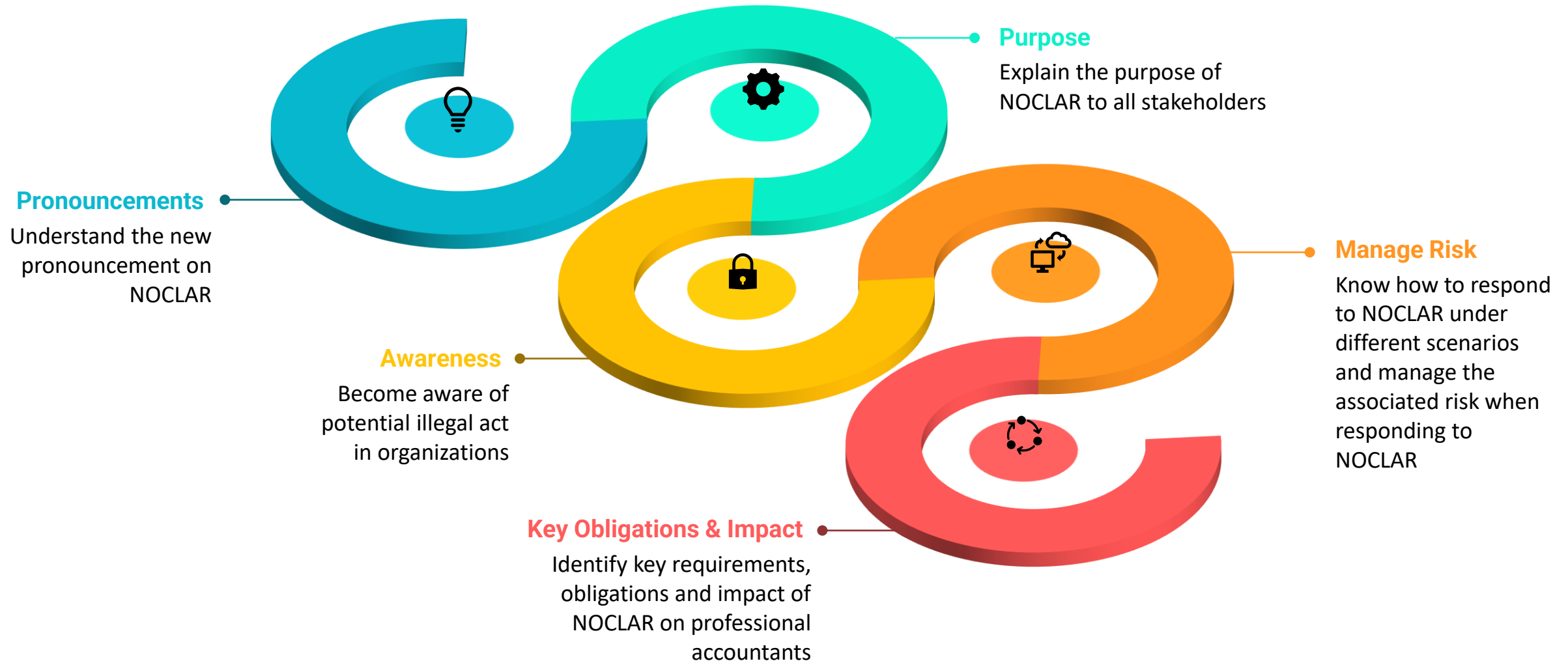


ETHICS

POLICIES



## What we will discuss:



# Background



## Identification:

During work, PA come across various acts or suspected acts of non-compliance with laws and regulations (NOCLAR)



## Not to Turn a blind Eye:

The PA has a prima facie ethical responsibility not to turn a blind eye to such matters.

The IESBA recognized that such a situation can often be a difficult and stressful one.

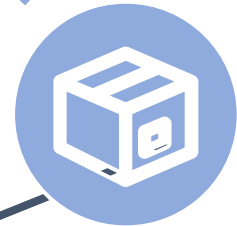
## Solution:

The Board approved the NOCLAR pronouncement to help guide the PAs in dealing with the situation and in deciding how best to act in the public interest.



## Objective:

Objective of the professional accountant should be to comply with fundamental principles of integrity and professional behaviors while taking public interest into consideration



# NOCLAR is part of Volume-I of Code of Ethics – Section 260 & 360

The Council deferred implementation of Section 260 & 360 of NOCLAR to **30th September 2022**

The Council has decided that the Section 260 and 360 of NOCLAR will be made applicable and effective from **1st April 2022.**

ICAI released the 12<sup>th</sup> Edition in 2019 -20 (effective from 1<sup>st</sup> July 2020) imposing new restrictions on Sec 260 & 360 of NOCLAR.

Council at its 393rd Meeting has decided that due to the prevailing situation of Covid-19, implementation of NOCLAR will be **deferred till further notice**

# What is NOCLAR (Non-Compliance with Laws and Regulations)?



## For Professional Accountants in Practice:

NOCLAR comprises:

- acts of omission or commission, intentional or unintentional,
- committed by:
  - i. a client
  - ii. TCWG,
  - iii. Management
  - iv. other individuals working for or under the direction of a client
- which are contrary to the prevailing laws and regulations

## For Professional Accountants in Business :

NOCLAR comprises:

- acts of omission or commission, intentional or unintentional,
- committed by –
  - i. PA's employing organization
  - ii. TCWG
  - iii. management
  - iv. individuals working for or under the direction of the employing organization
- which are contrary to the prevailing laws and regulations

## Why is NOCLAR Important ?

To **alert management** where appropriate so that they can deal with the consequences of the non-compliance; or deter the non-compliance if it hasn't yet happened



To comply with the **principles of integrity** and professional behavior

To take such **further action** as appropriate in the public interest.

# Applicability

Responding to NOCLAR applicable to	Existing provision (2019)	Revised provision w.e. from 1 <sup>st</sup> October 2022
<b>PAs in service (Section 260)</b>	All employees of listed entities	Senior PAs* in service, being employees of listed entities
<b>PAs in public practice (Section 360)</b>	Audit engagement of all listed entities	Audit engagements^ of entities: <ul style="list-style-type: none"> <li>• the shares of which are listed on recognized stock exchange(s) in India; and</li> <li>• have net worth of INR 250 crores or more.</li> </ul>

\* Senior PA in service are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources. It is further explained that the Senior PAs refer to KMPs

^ "Audit" or "Audit engagement" shall mean a reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements give a true and fair view in accordance with an applicable financial reporting framework".

# What Kind of Laws and Regulations are Covered ?

NOCLAR applies to laws and regulations that have a direct effect on material figures in the financial statements, and other laws and regulations that may be fundamental to an entity's business and operations. Clearly inconsequential matters and misconduct of a personal nature are excluded.

*Bribery and Corruption*

*Fraud (including false accounting, falsification of accounting records)*

*Insider Dealing*

*Money Laundering/ Terrorist Financing*

*Data Protection & Tax Evasion*

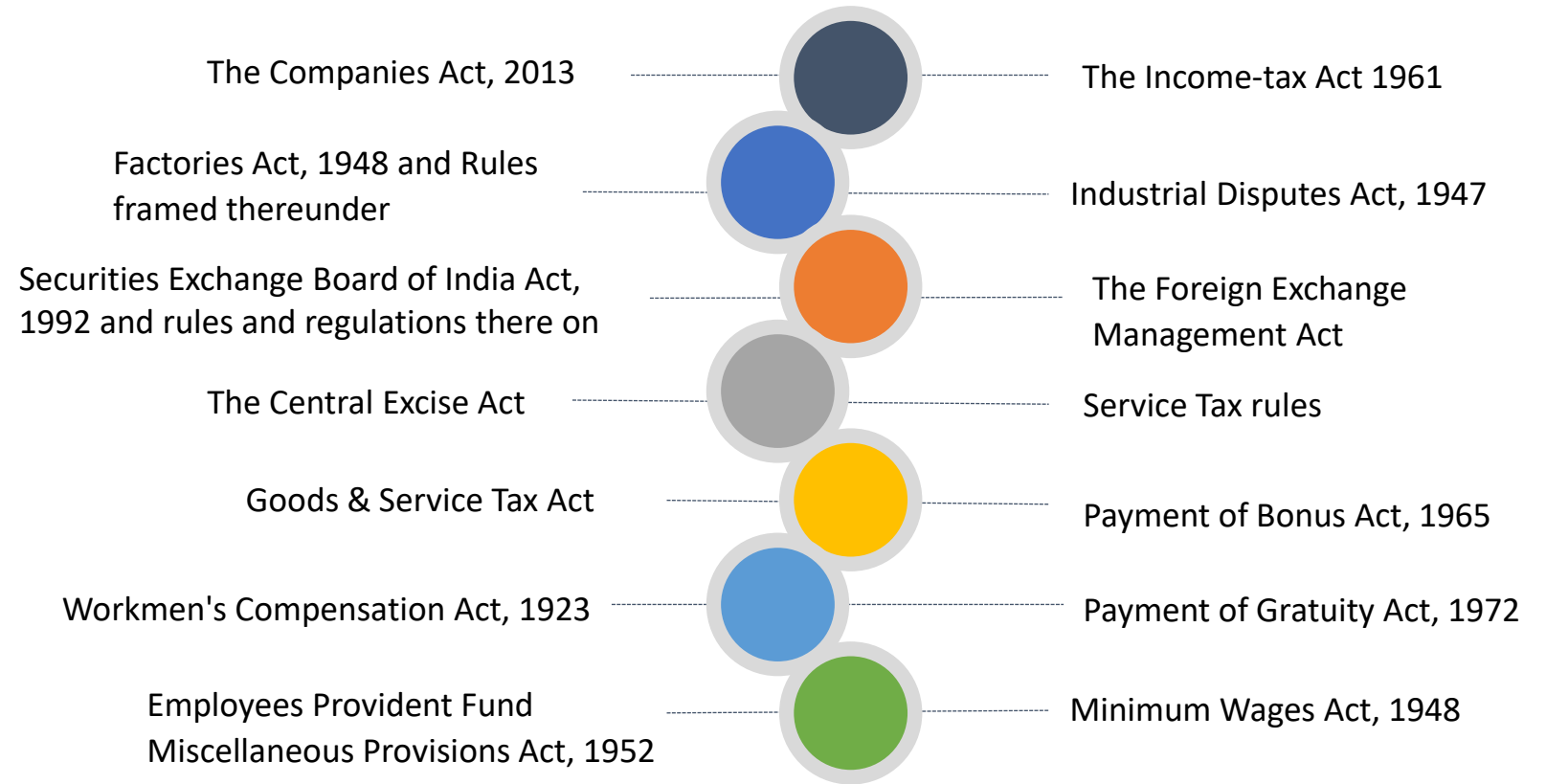
*Environmental Protection & Public Health & Safety*

*Financial Products and Services*

In the Indian law system, we have 4000+ laws. All these laws will make the law system of India more effective and extensive.

CARO 2020 mandates auditors to report on companies with various provisions of Companies Act, 2013:

- Section 143 (11)
- Section 143(3)(a)
- Section 188
- Section 134 (5)
- Section 123



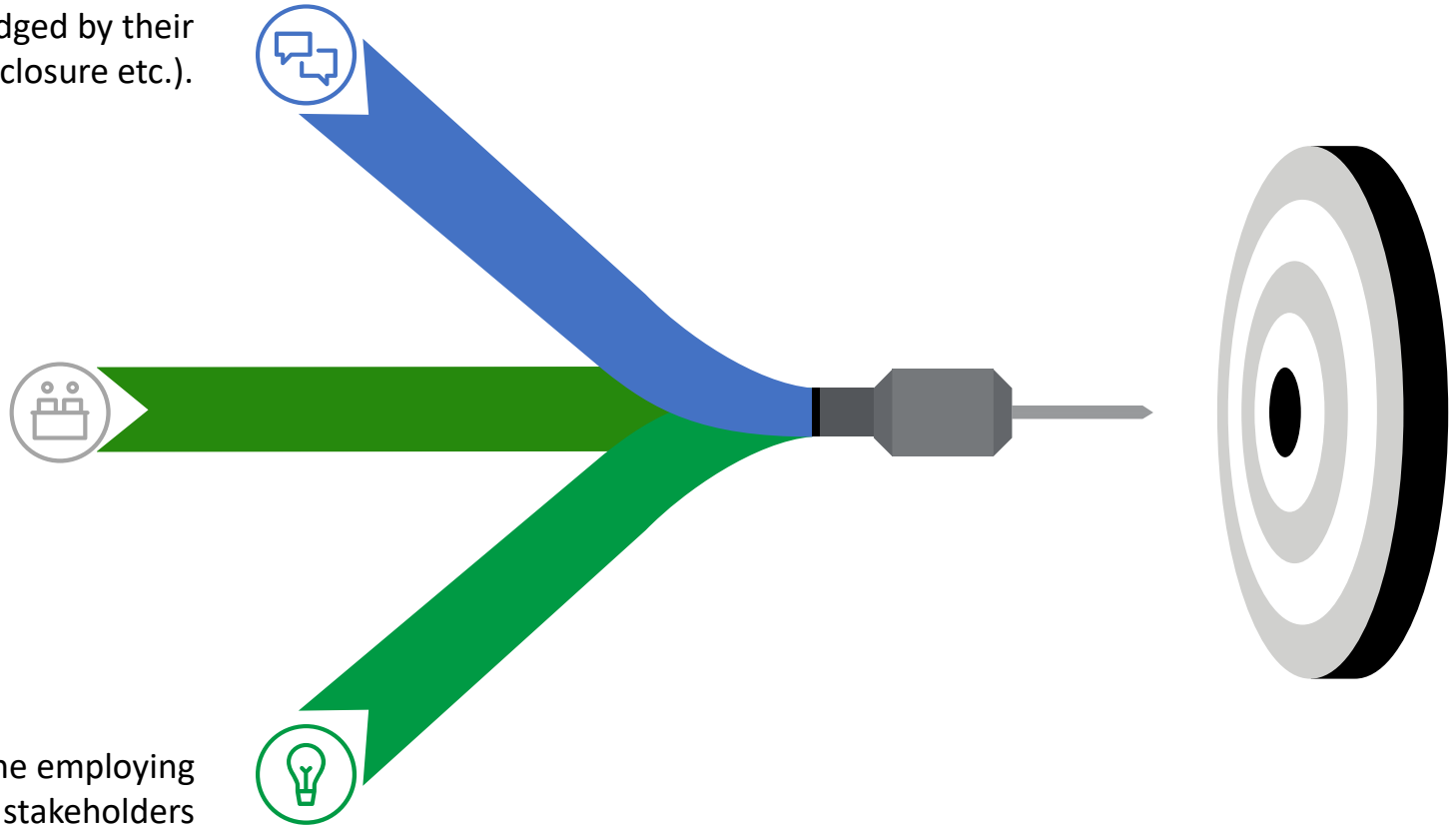
# Following matters are not in the Scope of NOCLAR

NOCLAR does not apply to the following although the framework may be applied in dealing with them:

Matters that are clearly **inconsequential**, judged by their nature and impact, financial or otherwise (disclosure etc.).

**Personal misconduct** unrelated to the business activities

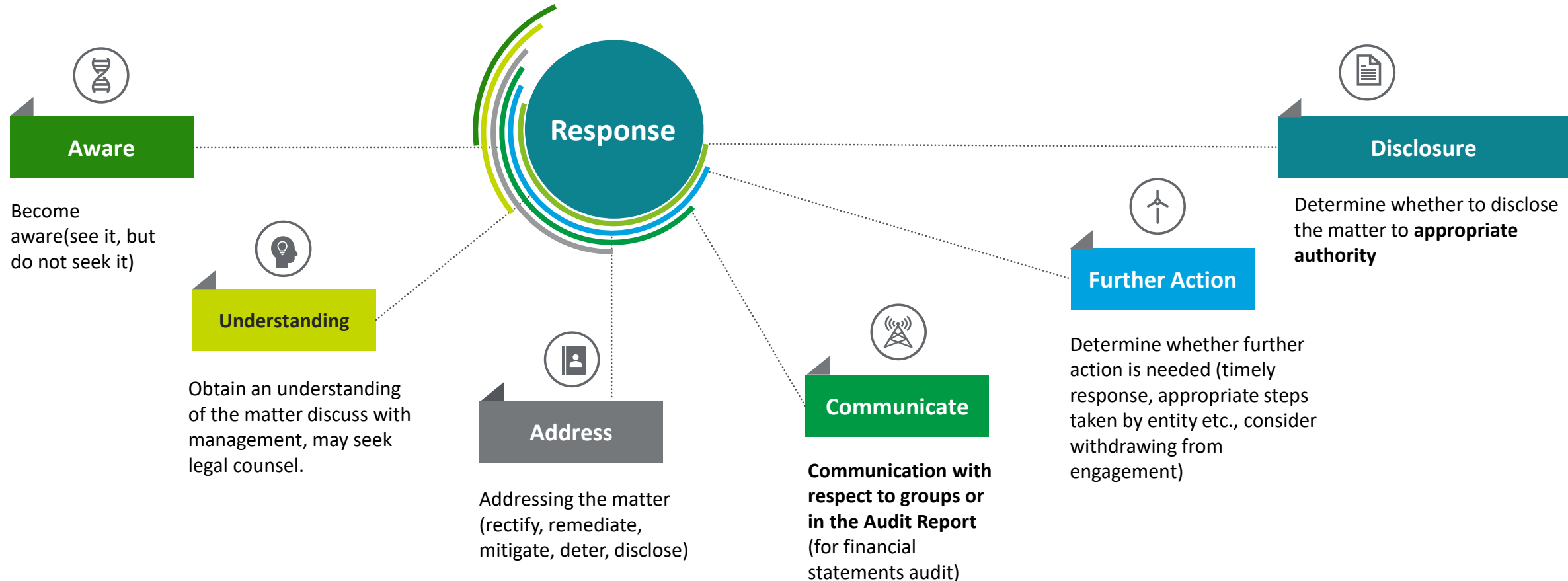
**Non-compliance** other than by the employing organization or any of its other stakeholders



# Response Framework

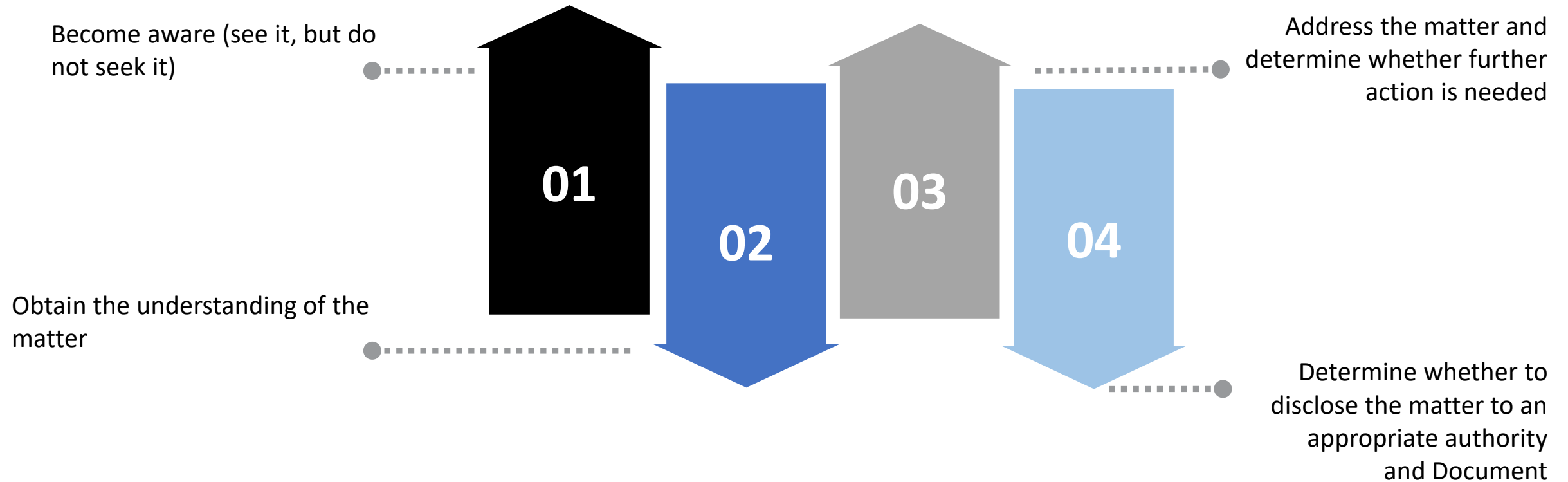
# PA's in Public Practice – Audit of Financial Statements

When a professional accountant in public practice becomes aware of a non-compliance or suspected non-compliance, the following steps are to be taken



# PAAs in Business – Senior Professional Accountants

SPAs are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of human, financial, technological, physical and intangible resources.



# Responsibilities Of Management and TCWG



1  
It is the responsibility of the employing organization's management and TCWG, to ensure that their business activities are conducted in accordance with laws and regulations and to identify any form of non-compliance by any of its stakeholders.

2  
Non-compliance may result in fines, litigation, or other consequences for the employing organization that may have a material effect on its financial statement and may also affect negatively investors, creditors, employees or general public.



# Independence standards part 4A (Section 400-800)

## Independence for Audit & Review engagements [Sec.400 to 800]:

- Professional independence should be felt, experienced and be visible, however tough that may be.
- This is the hallmark of any profession and this is what will bring in Public Trust.
- Ours is the profession of Trust and so our work must be executed without a hint of interdependence.
- Independence comprises of independence of mind and independence in appearance.

## Applying the conceptual framework (Sec.400)

- PAs shall be independent while performing Audit / Review Engagements in accordance with the requirements of this Code, CA Act, CA Regulations, Council Guidelines, Companies Act, Guidelines of RBI, SEBI, IRDAI etc.
- Independence requirements set out in Sec.141(3) of Companies Act, 2013
- Public Interest Entities (Newly introduced concept)
- Period during which independence is required to be maintained
- Communication with those charged with governance, Network firms & documentation
- Breach of independence provision - steps to be taken.

## Independence Standards Part 4A (section 400-800) Contd.

### Fees (Sec.410)

- Fee should commensurate with work and size
- Where for 2 consecutive years the Gross annual fee from an audit client and its related entities account for more than 15% of the total fee of the firm – inform to TCWG of the client – initiate safeguards.
- Fee overdue remain unpaid – cases to be evaluated.
- Some times this might create a self interest / intimidation threat
- Contingent fee – exceptions

### Compensation & Evaluation policies (Sec.411)

A firm shall not evaluate or compensate a KAP based on that partner's success in selling non-assurance services to that partner's audit client.

- Policy of the firm in this regard should not create a self interest threat





**Independence  
Standards Part 4A  
(section 400-800)  
Contd.**

**Gifts & Hospitality (Sec.420)**

- Acceptance of Gifts and Hospitality by PA / relatives might create self interest / familiarity / intimidation threats

**Actual or Threatened litigation (Sec.430)**

- When litigation with an audit client occurs, self interest and intimidation threats are created

**Financial Interests (Sec.510)**

- Holding a financial interest in an audit client might create a self interest threat
- applicable to interests held by Firm, Network firm and Audit team members.

# Independence

Breach of Independence provision for audit and review engagements

(Section 400.80 - 400.89) – New Provision

- Mechanism of self-correction prescribed in the Code in case the PA on his own discovers an unintentional violation
- Mentions steps to be taken in case of breach of Independence Standards i.e., Parts 4A and 4B.
- A PA who identifies a breach shall evaluate significance of breach and its impact on PA's ability to comply with the fundamental principles.
- If a firm concludes that a breach of a requirement in this Part has occurred, it shall take prescribed steps therein e.g.:-
  - End, suspend or eliminate the interest that created breach
  - Consider applicable legal or regulatory requirements and apply them



## Independence Standards part 4B (section 900-990)

### Independence for Assurance engagements other than Audit & Review engagements [Sec.900 to 990]:

Applying the conceptual frame work (Sec.900)

- Fees (Sec.905)
- Gifts & Hospitality (Sec.906)
- Actual / Threatened litigation (Sec.907)
- Financial Interests (Sec.910)
- Loans & Guarantees (Sec.911)
- Business relationships (Sec.920)
- Family & personal relationships (Sec.921)
- Recent service with an assurance client. (Sec.922)
- Serving as a director or officer of an Assurance client.(Sec.923)
- Employment with an assurance client (Sec.924)
- Long association of personnel with an assurance client (Sec.940)
- Provision of non-assurance services to assurance clients other than audit & Review engagement clients. (Sec.950)
- Reports that include a restriction on use and distribution.(Sec. 990)

**Code of Ethics**  
**VOLUME - II**  
**(Domestic Laws)**

---



# Key Standards Relating to Auditing as prescribed by ICAI

---

## **Standards on Auditing (SAs) – [100 to 999]**

- To be applied in the audit of historical financial information

## **Standards on Review Engagements (SREs) – [2000 to 2699]**

- To be applied in the Review of historical financial information.

## **Standards on Assurance Engagements (SAEs) –[3000 to 3699]**

- To be applied in Assurance Engagements other than Audits & Review of historical financial information.

## **Standards on Related Services (SRSs) – [4000 to 4699]**

- To be applied to engagements involving application of agreed upon procedures to information, compilation engagements and other related services.

## **Standards on Quality Control (SQC - 1) – [01 to 99]**

- To be applied to all services covered by the Engagement standards as above.

# Key Requirements for PA (Volume – 2)



Compliance with Accounting & Auditing Standards, Guidance notes and other documents issued by ICAI



Accounting Standards and Engagement and Quality Control Standards



Accounting Standards: 3 sets



IND AS – Notified under Companies (Accounting Standards) Rules 2015



AS - Notified under Companies (Accounting Standards) Rules 2006



AS – Issued by ICAI for entities other than companies.

# Engagement & Quality Control Standards

## **Standards on Auditing (SAs) – [100 to 999]**

- To be applied in the audit of historical financial information

## **Standards on Review Engagements (SREs) – [2000 to 2699]**

- To be applied in the Review of historical financial information.

## **Standards on Assurance Engagements (SAEs) –[3000 to 3699]**

- To be applied in Assurance Engagements other than Audits & Review of historical financial information.

## **Standards on Related Services (SRSs) – [4000 to 4699]**

- To be applied to engagements involving application of agreed upon procedures to information, compilation engagements and other related services.

## **Standards on Quality Control (SQC - 1) – [01 to 99]**

- To be applied to all services covered by the Engagement standards as above.

# Chartered Accountants Act, 1949, Regulations and Notifications

---

▪ Members who are deemed to be in practice –

- Section 2(2) defines “to be in practice”.

Council resolution permitting a CA in practice to render Management Consultancy and other services viz.,

(I) Financial management planning and financial policy determination

(ii) Capital structure planning and advice regarding raising finance.

(iii) Working capital management.

(iv) Preparing project reports and feasibility studies.

(v) Preparing cash budget, cash flow statements, profitability statements, statements of sources and application of funds etc.

(vi) Budgeting including capital budgets and revenue budgets.

(vii) Inventory management, material handling and storage.

# Certificate of Practice (Section – 6 of CA Act, 1949)

---

- Prohibition on using a designation other than CA (Section – 7)
- Directors of companies, office bearers of political parties, clubs etc. – Not to use the said positions in their visiting cards.
- Members who are members of ICSI / ICAI to use only ACS / ACMA and not the words “Company Secretary / Cost Accountant ”.
- Permission to mention qualification of other institutions .
- Only if the other Institution has MRA /MOU with ICAI.
- ICFAI case – Supreme Court observation on using of qualifications.

# Accounting and Auditing Standards

---

- At present, there are three sets of Accounting Standards:
  - (I) Indian Accounting Standards (Ind AS) notified under Companies (Indian Accounting Standards) Rules, 2015 for specified class of Companies;
  - (ii) Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2006 for Companies other than those following Ind AS;
  - (iii) Accounting Standards (AS) prescribed by ICAI for entities other than Companies.



### **Statutory auditor not to be the Internal Auditor simultaneously**

- An Auditor appointed by an entity under the Companies Act or any other statute shall not be the Internal Auditor of the same entity

### **Internal auditor not to be the Tax auditor simultaneously**

- An Internal Auditor of an assesses, whether working with the organization or an independently practicing Chartered Accountant irrespective of being an individual Chartered Accountant or a firm of Chartered Accountants cannot be appointed as its Tax Auditor.

### **Internal Auditor not to be the GST Auditor simultaneously**

- The Internal Auditor of an entity cannot undertake GST Audit of the same entity.

### **Cooling off period after completion of tenure as Director**

- A member shall not accept the assignment of audit of a Company for a period of two years from the date of completion of his tenure as Director, or resignation as Director of the said Company.

### **Members to satisfy whether appointment is as per the statute**

- A member should satisfy himself before accepting an appointment as an auditor of an entity that his appointment is in accordance with the statute governing the entity. In case the entity is constituted under a trust deed/instrument, the member should satisfy whether his appointment is valid according to the instrument constituting the entity and rules and regulations made thereunder.



# Materiality as per SA 320

---



Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;



Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both;




Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.”



# First Schedule to the CA ACT, 1949





# First Schedule (Part - I)

---


## Clause 1

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;



# First Schedule (Part - I)

## Clause 2



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.

# First Schedule (Part-I)

## Clause II (Cont'd)

1. Members can share fee with such members of other bodies as may be approved by the council (like CSs, Cost Accountants, Lawyers, Architects etc.)

2. % of fee payable to Registrar of co-operative societies in certain states – permitted

3. A legal representative of a partner (say widow) is entitled for share of profit and Goodwill when the Partnership Deed permits.

## Sharing Audit Fees as “Allowance”

A CA gave 50% of the Audit Fees received by him to the complainant, who was not a CA, under the nomenclature of office allowance and such an arrangement continued for a number of years, it was held by the Council that in substance the Chartered Accountant had shared his profits.

Held, he was guilty of professional misconduct under the clause. It is not the nomenclature to a transaction that is material, but it is the substance of the transaction which must be looked into.



# First Schedule (Part - I)

## Clause 3:

- 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;
- Sharing of fees with non-member prohibited.
- No prohibition on charging of referral fee to another member.

# First Schedule (Part - I)

## Clause (4):

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 recognized by the Central Government or the Council for the purpose of permitting such partnerships.

- Multi Disciplinary Partnership firms are allowed
- Partnership with members of foreign professional bodies not permissible.
- Partnership shall be confined to the profession of CAs.



# First Schedule (Part - I)

## Clause 5:

- 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;
- Work will follow due to the respect that he commands
- acts of partners / employees of the firm in securing the prof. work shall be subject to provisions of Cl. 6 & 7 of Part – I of First schedule.

## Writing letters with details and experience for securing work

A Chartered Accountant wrote various letters to officers of different Army Canteens giving details about him and his experience, his partner & office and the norms for charging audit fees.



He was held guilty for violation of Clauses (5) & (6).






# First Schedule (Part - I)

- **Clause 6:**
- Solicits, clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means;
- No prohibition on securing prof. work from another CA in practice
- Responding to tenders for prof. work – permitted subject to compliance with Council Guideline No:1 – CA(7)03/2016 Dt.07.04.2016
- Shall not respond to any tender for services which are exclusive for CAs (attest functions).
- However, if min. fee is prescribed in tender, or where the area is open to others, one can respond
- A member can respond to tenders which are open to others apart from CAs.
- No advt. or notes in the press can be circulated soliciting prof. work




# First Schedule (Part - I) Clause 6





## (Clause 6 contd..)


- Classified advt. in journal of ICAI permitted.
- Changes in partnership / Ph. Nos / address can be released through advt.
- Applications for empanelment for allotment of audit – permitted – fee can be quoted.

## **Publication of Books, Articles or presentation: -**


- Only the name of member with prefix “CA” or his firm name can be mentioned. No prof. attainments of member / firm shall be used.
  - Greeting cards / invitations for marriages or religious occasions can be issued with the designation “Chartered Accountant” as well as the name of the firm.
  - Advt. for Silver / Golden / Platinum / Centenary celebrations of the firm permitted.
- 



# First Schedule (Part - I) Clause 6



## Sponsoring activities:

- permitted to sponsor the events of POU of ICAI, if the event has approval of CPEC, ICAI.
  - Other sponsorship / CSR activities – member's name with 'CA' prefix is permitted. Firm name and Logo not permitted.
  - Advt. of Teaching / Coaching activities by members:
    - Teaching not to exceed 25 hours in a week
    - Member cannot advertise Teaching / coaching activities
    - Members may put a Board outside the coaching center with name, subjects taught etc.
  - Sharing of firm profile with prospective client: can be shared in response to the proposed client's request / query.
- 



# First Schedule (Part - I)


## ➤ Television or Movie credits:

- while sharing the name of member / firm for inclusion in TV / Movie credits, ensure that the name is not made differently as compared to other entries in the credits.
  - Giving public interviews : Permitted, but ensure that it should not result in publicity, not to highlight prof. attainments.
- ## ➤ Soliciting Prof. work by making roving enquiries – prohibited
- ## ➤ Seeking work from Prof. colleagues – permitted as provided above.
- ## ➤ Representation which an auditor is entitled to make U/s.140(4) of Companies Act, 2013 – wording of representation should be that it does not tantamount to soliciting / canvassing for continuation of audit.
- ## ➤ Acceptance of original prof. work of a client introduced by another CA:
- should not be accepted; but if the client insists, advise the client to  
come through the other member who referred the work to him.



# First Schedule (Part - I)

(Clause 6 contd.)

- Publishing of Advertisements under Box numbers – prohibited.
  - Educational videos: may be uploaded on the internet by members, but there should be no reference to the CA firm in which he is associated. No contact details / website address can be given.
- 

## Advertisement of Congratulations for opening of Office

An advertisement was published in a newspaper containing the Member's photograph wherein he was congratulated on the opening ceremony of his office. He was found guilty by the Council and later, by High Court - of violating this Clause (soliciting work by advertisement). The following observations of the High Court may be relevant:

The advertisement which had been put in by the Member is a noticeable one and the profession of Chartered Accountancy should maintain high standards of integrity, professional ethics and efficiency.

If soliciting of work is allowed the independence and forthrightness of a Chartered Accountant in the discharge of duties cannot be maintained and therefore some discipline must be maintained by the profession.

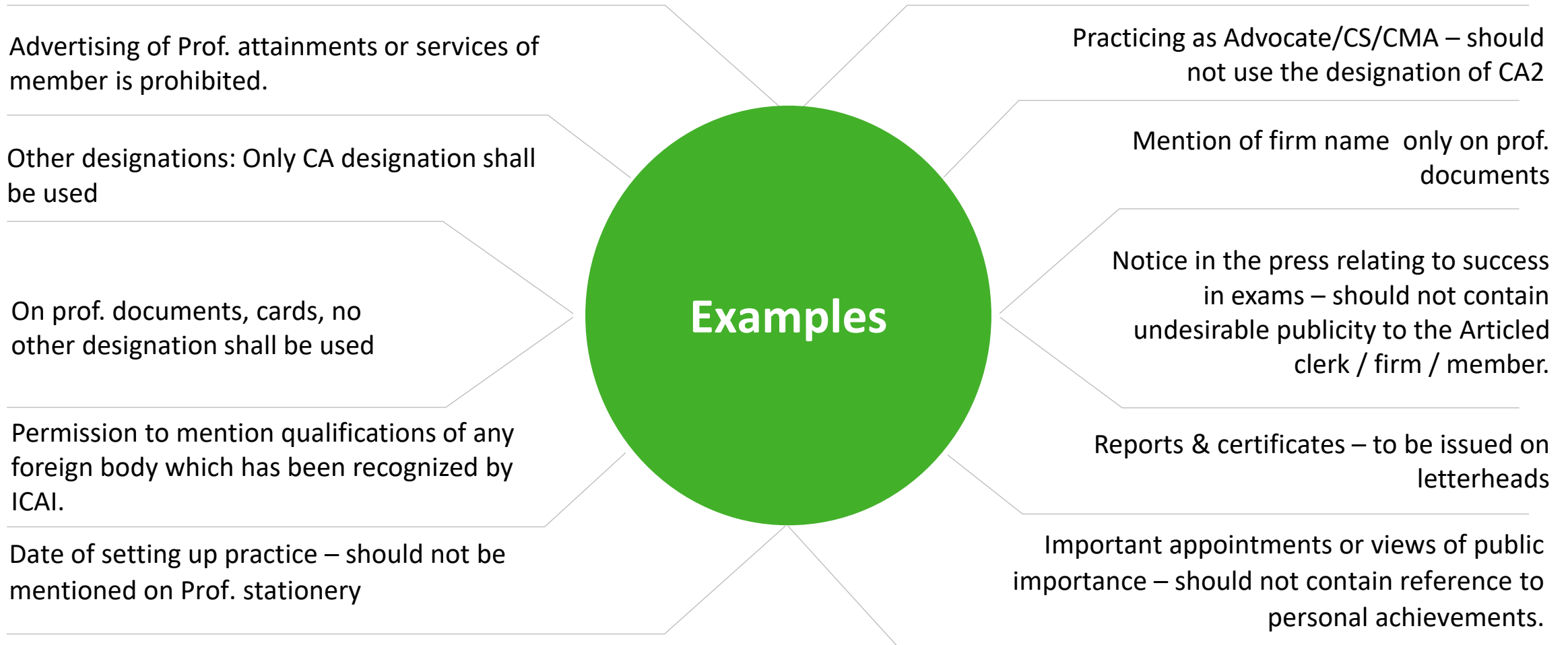


**First Schedule  
(Part - I)  
Clause – 7**

**Clause 7:**

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 recognized 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 recognized by the Central Government or may be recognized by the Council;

## Clause 7 (Cont.)



## Clause 7 (Cont.)

Writing articles or letters to the press – permitted to use the description of CA

Size of sign Board: Board should be of appropriate visibility and illumination.

Member can have a name plate at his residence with 'CA', but not with the name of firm.

Network firm may advertise to the extent permitted by the Advt. guidelines of ICAI  
Firms cannot join Networks, which are not registered with ICAI.

### Examples

Use of Logos – Not Permitted

Common CA Logo: Permitted to use subject to CA Logo guidelines

Guidelines for elected members: for use of designation on letterheads / visiting cards - As per guidelines of ICAI.

Public announcements with details of directors: prospectus / public announcements of corporates in which a CA is a director – ensure that the inf. / announcement do not advertise his prof. attainments / services.

## Representation as an Agent of LIC Housing Finance Ltd.



A Chartered Accountant firm was working as Recovery Agent for Housing Finance Company without taking any permission from the Council to engage in any work other than the profession of Chartered Accountancy.

The Respondent had written a letter to the Complainant for recovery of money wherein he represented himself as an agent of LIC housing Finance Ltd. He intimidated the Complainant with harsh and coercive method of recovery.

Held that the Respondent was guilty under clauses (7) & (11) of Part I of First Schedule.

**First schedule**  
**(part - I)**  
**Clause - 8**

Accepts a position as auditor previously held by another chartered accountant or certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing;

# First schedule (part - I) Clause - 8

- Communication required for all types of audits.
- Grounds for Non-acceptance of audit to be stated clearly
- non-compliance with Sec.139 / 140 of Companies Act, 2013 read with Cl.9 of Part I of 1<sup>st</sup> schedule to CA Act 1949
- Nonpayment of undisputed audit fee by auditee, other than a sick unit.
- Fees pending due to non availability of Previous Auditor
- Course of action in case of change of auditor
- Duty of retiring auditor – to respond with correct information.
- Incoming auditor can act, after waiting for a reasonable time for a reply
- Positive evidence of delivery required - (a) RPAD (b) Personal delivery (c) Ack. by mail from retiring auditor's official mail ID (d) UDIN portal.
- Certificate of posting not a conclusive proof of communication.
- Premises found locked – New Guidance available.

# First Schedule (Part - I) Clause 9

Accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act,1956 (Sec.140 of 2013 Act), in respect of such appointment have been duly complied with;

1. Procedural requirements to be diligently adhered to.
2. To check whether Special notice was given at least 14 days before the general meeting.
3. Notice to retiring auditor should be sent by RPAD.
4. Replies received from the retiring auditor are sent to all the members of the company.

# First Schedule (Part - I)

## Clause 9 (contd.)

1. After satisfying that the requirements of the company's act have been complied with, the incoming auditor should first communicate with the retiring auditor as provided in clause 8 of Part I of First Schedule.
2. Do not rely on the verbal assurance given by the company about the compliance of Companies Act requirements. Verify and collect the documentary evidence.

# First Schedule (Part - I)

## Unjustified Removal of Auditors:

- When an auditor resigns or does not offer himself for reappointment, shall send a communications in writing to the Board giving reasons therefor and shall send a copy of the same to ICAI
- The incoming auditor, before accepting the appointment, shall get a copy of the above representation and consider.
- When an auditor though willing for reappointment, has not been reappointed, shall file with ICAI a copy of statement which he may have sent to the management for circulation among shareholders
- The incoming auditor shall obtain a copy of the above communication and consider, before accepting the appointment.
- The ESB, after considering the above may call for such further information and make a report to the council.
- The above procedure is applicable to Govt. / statutory authorities
- Mission statement, terms of ref. and procedure followed are notified.

# First Schedule (Part -I) Clause - 10

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;

No member can charge fee based on a % of profit or which are contingent upon findings or result of work.



## Example



A Chartered Accountant had arranged accounting bills raised by 16 parties amounting to Rs.14.09 Crores and made entries which were not genuine. He had charged commission @ 0.25% to 1% of the transactions for arranging accounting entries.

He had been involved in arranging bogus bills, accommodation entries and circular transactions for trading in coal through bank LC limits for various other parties.

Held guilty of Professional and Other Misconduct falling within the meaning of Clause (10) of Part I and Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

## First Schedule (Part - I) - Clause 11

Engages in any business or occupation other than the profession of chartered accountants unless permitted by the Council so to engage.

### **1. DIRECTOR/PROMOTER/ PROMOTER DIRECTOR**

- Permitted generally to be director implicative in any company.
- Permitted to be a promoter or signatory to the MOA & AOA of the Company.
- To be a director of the company irrespective of whether the objects include areas which do not fall within the scope of the profession of CA.

### **2. PERMISSION GRANTED GENERALLY (By Council Resolution)**

- Employment under CA in practice/firm
- Private tutorships.
- Acting as surveyor/loss assessor under insurance act.
- Full/part time employment in business concerns provided one doesn't hold substantial interest.
- Full/part time employment in non- business concerns .
- Office of MD/Whole Time Director of body corporate, provided he/relatives doesn't hold substantial interest.
- Interest in family business concerns.



## First Schedule (Part - I)

### Clause 11 (Contd.,)

A CA in practice shall not engage in any other prof. / business except with the permission of council (Reg. 190A).

#### Exceptions:

Permitted - Liquidator, Trustee, Executor, Administrator, Arbitrator, Receiver, Adviser or representative for costing etc., appointed by Govt. – provided the appointment is not on a salary cum full time basis.

# First Schedule (Part - I)

Clause 11 (Contd..,)

**1. Director – Implicatory:**

- Means an ordinary Director (Not MD / WTD) enquired only to attend Board meetings and no remuneration except sitting fee
- No specific permission is required

**2. Promoter Director:** No bar to be a promoter director and Implicatory director.

**3. Member in practice in a HUF doing business:**

- To prove that he was not actively engaged in the business of HUF
- Funds of HUF can be invested in business provided member is not actively engaged in the management of the said business.



### **In Employment along with COP without permission of Council**

A Member having a certificate of practice and having 2 Articled Clerks with him was simultaneously working as a Financial Controller of a Company without the permission of the Council. He was held to be guilty in terms of this Clause in so far as he was engaged in other occupation without the permission of the Council.

### **Involvement in Share Business /Transfers of Shares**

Where a Chartered Accountant had offered to help the Complainant in disposing of odd lot shareholding, sold the shares of the Complainant at much lower rates than the prevailing market rates, had sent to the Complainant contract notes etc. and the said Chartered Accountant was personally involved in the share transfers and broker's business besides his professional activities. Held that he was guilty under the clause.

## Holding Substantial Interest in a Company

The charge against a Chartered Accountant, inter alia, was that he had more than 20% shareholdings in a finance and Management Consultancy Private Company, and he could not enter into the business of brokering. It was held that he had to be considered to be a Managing Director or a whole-time Director under the provisions of Section 2(26) of the Companies Act, 1956, since he was entrusted with the whole or substantially the whole of the management of the affairs of the Company.

Since he failed to obtain specific and prior approval of the Council for the above, he was held guilty under the Clause.

## Engaged as Lecturer without permission of Council

A Member, without surrendering her Certificate of Practice, and without obtaining prior permission from the Council of the ICAI, accepted the job of a full-time lecturer and as HOD (18 hrs. per week) in a College.

The Council held that the Member guilty of professional misconduct under Clause (11) of Part I of the First Schedule read with Sections 21 and 22 of the Chartered Accountants Act, 1949.



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.

Routine documents such as

Audit questionnaire; Letters of forwarding draft observations; issuing of Acknowledgements for records produced; raising of bills and other office administration matters can be signed by staff of PA.

Signing in the name of the firm on reports / Financial statements shall be by a partner only.

**First Schedule  
(Part - I)  
Clause 12**

Professional Misconduct in relation to the Members of the Institute in service:

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:-

- Pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him;
- Accepts or agrees to accept any part of fees, profits or gains from a lawyer, a chartered accountant or broker engaged by such Company, firm or person or agent or customer of such Company, firm or person by way of commission or gratification;

## **First Schedule (Part II)**

### Not Supplying Information sought by the Institute

- Where a Chartered Accountant had not disclosed to the Institute at any time about his engagement as a proprietor of a non -Chartered Accountants' firm while holding certificate of practice and had not furnished particulars of his engagement as a Director of a Company despite various letters of the Institute which remained not replied.

Held that he was guilty under clause (11) of Part I and clauses (1) and (3) of Part III of the First Schedule.

- Where a Chartered Accountant had continued to train an articled clerk even though his name was removed from the Membership of the Institute, and he had failed to send an reply to the Institute asking him to send his explanation as to how he was training as his articled clerk when he was not a Member of the Institute.

Held that he was guilty under clause (3) of Part III of the First Schedule.





# First Schedule (Part III)

## **Professional Misconduct in relation to the 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-**

1. Not being a fellow of the Institute, acts as a fellow of the Institute.
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;

The foregoing clauses are intended to empower the Council to enforce discipline over the members, and for obtaining information from members or requiring compliance with any directions/Guidelines issued by the Council.

# First Schedule

## Part IV

### **Other Misconduct in relation to the Members of the Institute generally:**

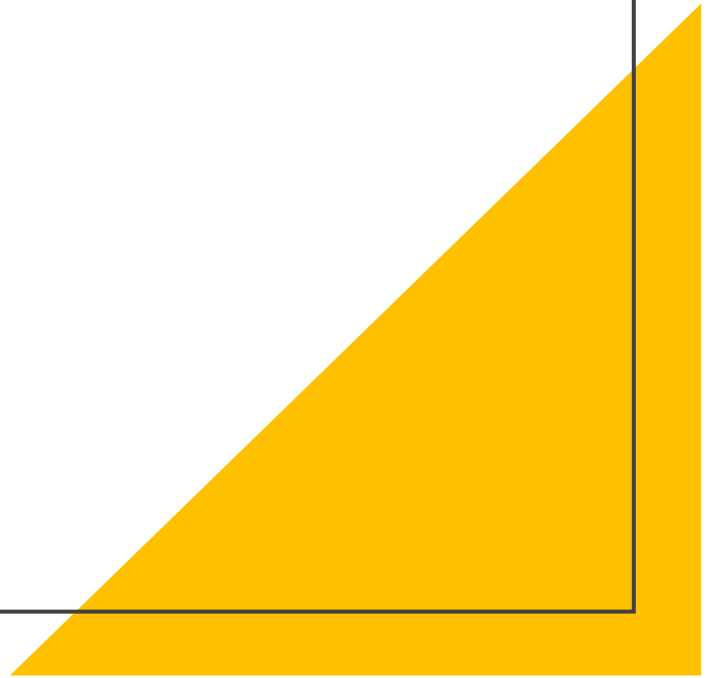
**A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he-**

1: Is held guilty for any Civil or Criminal Court for an offence which is punishable with imprisonment for a term not exceeding six months.

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.

- Council is empowered to opine on any action of a member which brings the Institute or profession in disrepute as misconduct.

# **Second Schedule to the CA ACT, 1949**



# Second Schedule (Part I)

## **Professional misconduct in relation to CAs in practice:**

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

1. Discloses information acquired during 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;



## Second Schedule (Part – I)

### Clause 1 (Contd.,)

- If disclosure is required as a part of performance of professional
- Not permitted to submit the client information to any court on his own. However, if a court directs, one has to furnish.
- If disclosure is required in other cases, consent of the client is to be obtained. If the client is a company, better to take the Board's consent as it has all powers that a company can do in a General meeting.
- Working papers of Auditor:
  - Not required to provide to the client or other auditors (joint) of the same enterprise or related enterprises.
  - The main auditors have no right to access the working papers of Branch auditors, but has a right to seek clarifications and / or visit the branch.

## Second Schedule (Part – I)

### Clause 1 (Contd..,)

- Sharing of information: Information can be shared to a client or a regulator after obtaining the client's consent.
- Circumstances of disclosure when required by law:
  - Not possible to set out all circumstances under which disclosure of information may be required by law.
  - Sharing of information of a client as sought by a Regulator under law would be permissible and would not require client's consent.
- Role of CAs in relation to unlawful acts by their clients.
  - Section 39 of Cr.PC 1973 and Section 126 of the Evidences Act, 1872 – No duty is cast on a member U/s.39 of Cr.PC or any other enactment, to inform the I.T authorities about Taxation frauds by his clients of which he comes to know during the Course of work. However, under NOCLAR, one may have to report.

## **Second Schedule (Part - I)**

- 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;

## **Second Schedule (Part - I)**

- **Position in case of joint Auditors**
  - If the work is divided among joint auditors, each of them are responsible for the allotted work.
  - However, all the joint auditors are jointly and severally responsible for
    - the audit work which is not divided
    - decisions taken under audit planning
    - matters brought to the notice by one of them and others agree for it
    - examining the Financial statements of the client comply with the requirements of relevant statute.
    - presentation and disclosure of Financial Statements
  - For detailed consideration of the subject, refer to SA 299 (Revised), joint audit of Financial Statements.

## Second Schedule Clause (2)

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;



## Example

### Engagement in same business by using business Information of Ex -Client

Where a Chartered Accountant being in practice, engaged himself with a partnership concern dealing in electrical contracting without seeking prior permission of the Council for the same besides holding Certificate of Practice. He used the business information of his ex-client to promote his own business.

Held, guilty under the Clause (11) of Part I of First Schedule & 'Other Misconduct' falling under clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.



### Taking Bribe from Bank Customers

Where a Chartered Accountant was demanding and taking bribe from the borrower customers of the Bank in return of maintaining the 'Standard Category' of the borrower accounts.

Held, guilty of Other Misconduct falling within the meaning of Clauses (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

# Preparation and Certification of Fake Documents

The Respondent prepared and certified Fake Financial Statements and other documents of certain persons to whom loans had been sanctioned through a Branch of Bank of Maharashtra, Mumbai. In addition to above, the Respondent availed vehicle loan from the same Branch of the above Bank and it was found that assets had not been purchased, mis-utilized Bank funds and account became Non-Performing Assets.

Held, guilty of Professional Misconduct falling within the meaning of Clauses (6), (7) and (8) of Part I of the Second Schedule and also of 'Other Misconduct' falling within the meaning of Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act 1949.



## Second Schedule (Part - I)

### Clause (3):


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;

- Report on profit forecast and / or Financial forecast
- Member should state the sources of information, basis of forecasts, major assumptions etc. but should not vouch for accuracy of the forecasts.

# Second Schedule (Part - I)

## Clause (4)


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;



## Second Schedule (Part - I)

### Clause 4 (Contd..)

- **Substantial interest:**
  - Shall have same meaning as is assigned thereto under Chartered Accountants Regulations, 1988
  - 20% of voting power / shareholding
  - Member, his firm or his partner or his relative has substantial interest
- “Financial Statements cover both reports and certificates usually given after examination of Accounts or Financial Statements
- Council decided not to permit:-
  - a CA employee to certify the Financial Statements of his employer company or a company under the same management, even though he holds COP.
  - accept the auditor-ship of a college, if he is working in the same college on part time basis.
  - accept the auditor-ship of a Trust, where his partner is a trustee or employee of the said Trust.
- Requirements of this clause are applicable to all attest functions
- Where the member is a Director, officer or employee in a company
- Sec.141(3)(b) of Companies Act, 2013 prohibits from auditing such company irrespective of holding substantial interest.



## Second Schedule (Part - I)

### Clause 4 (Contd..)

- a Director cannot be the auditor of that company
- Sec. 141(3)(d)(i) of Cos Act disqualifies a person if he, his relative or partner holds any security or interest in the company or its subsidiary / holding / associate company (relative can hold security up to Rs.1,000/-).
- Sec.141(3)(c) of Cos Act, 2013 disqualifies a member from being auditor if he is a partner or who is in the employment, of an officer or employee of the company.
- Sec.141(3)(f) of Cos Act, 2013 disqualifies a person whose relative is a Director or is in the employment of the company as a Director or KMP
- “Relative” for this purpose would refer to the definition mentioned in AS-18.
- Not to write books of A/c for clients
- Statutory Auditor not to be the Internal Auditor
- Internal Auditor not to be the Tax Auditor under I.T Act / GST Act.
- 2 years cooling off period after completion of tenure as Director
- Members to satisfy whether appointment is as per the statute
- Regulatory requirements and requirements of Trust deed / Articles.

## Tax Audit and Maintenance of Accounts simultaneously

---

Where a Chartered Accountant maintained the accounts and acted as the Tax Auditor of a firm. Besides holding the COP, he was also in active business association with a company being a Director of the company without taking the permission of the Council.

Held guilty of professional misconduct falling within the meaning of Clause (11) of Part I of the First Schedule and Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

---

Where a Chartered Accountant was the Statutory Auditor of a Bank and he being the Statutory Auditor also conducted the Revenue Audit of the same Bank. In the Bank Empanelment Form submitted by the Firm he had provided wrong information to the Institute, as the firm was already closed.



## Second Schedule (Part - I)

### Clause 5

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;

- For Materiality, refer to SA 320 – “Materiality”
- Misstatements including omissions are expected be material, if they individually or in aggregate expected to influence the economic decisions of users taken based on Financial Statements.
- Judgments about materiality are to be made in the light of surrounding circumstances, size / nature of miss-statement
- Financial statements cover both reports & certificates.



# Second Schedule (Part -I)

## Clause (6)

Fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in professional capacity.

Observations made in Clause – 5 are equally applicable to this clause.

## Clause (7)

Does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

## Non-verification of Cash Balance

Where a CA, in a Bank Audit reported to the shareholders that he had not verified the cash on hand and that he had also signed the balance sheet in anticipation of the receipt of confirmation letters from the banks in respect of the cash said to be lying with them and failed to report on the weakness of the banks financial position.

Held, that he was guilty of the first and third charges falling under Clause (7)



## Failure to check the Bank Balances

Where a Chartered Accountant failed in his duty to check the Bank Balances with the Pass Books of the banks and failed to obtain certificates of balances from the bankers in respect of those balances, the Council found him guilty of misconduct under Clauses (7) and (8) of Part I of the Second Schedule

Held there being no proof of dishonesty or malafide on the part of the Chartered Accountant and in view of the circumstances of the case, the High Court took no more serious view of the matter than to express disapprobation of the conduct of the Chartered Accountant in the form of an admonition.




- **What constitutes professional misconduct?**

Professional misconduct on the part of a technical professional cannot be found merely on a finding of bare nonperformance of a duty or some default in performing it.

- Misconduct implies failure to act honestly and reasonably either according to the ordinary and natural standard or according to a particular profession.
- Term of wide import but it implies serious cases of misconduct of gross negligence.
- Negligence per se would not amount to gross negligence

- **Gross negligence – some instances**

- Failure to verify securities
- Failure to reconcile bank balances
- Failure to check cash balances
- Issuing a false certificate regarding maintenance of records



## Second Schedule (Part - I)

### Clause 8

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;

- I. A member should not express an opinion before obtaining the required data and information.
- II. If a member did not get full information for expression of an unmodified opinion, the auditor should clearly express his disclaimer. Refer to SA 705 – Modifications to the opinion in the Independent Auditor's Report (Revised)

## Second Schedule (Part - I)

### Clause 9:

Fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances;

What is generally accepted Audit procedure:

- Audit should be performed in accordance with generally accepted procedures of audit applicable to circumstances / entity
- Depend upon facts and circumstances of each case.
- Guidance is available from ICAI by way of Engagement and Quality Control Standards (SAs), Statements, GNs, GCs, Tech. Guides, practice manuals, studies and other papers.
- Audit of listed companies:
  - To have Peer Review certificate
- Firm Registration Number and Membership Nos. to be quoted on all reports.

## Second Schedule (Part -I)

### Clause 10

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.

- Advance received from client against services to be rendered does not fall under this clause.
- Money received for expenses to be incurred, intended to be spent in a reasonably short period, need not be put in a separate Bank A/c.
- Money received in the capacity of Trustee, Receiver, Executor, Liquidator etc. should be kept in a separate Bank A/c.

# Role of Chartered Accountants in relation to unlawful acts by their Clients.

The question of the member's liability when he is not directly involved in tax frauds committed by his client, but he discovers such fraud in the course of his professional work, the action recommended to be taken by him is indicated below

The paragraphs that follow apply to intentional suppressions or misstatement by the client in his tax returns. If there is a genuine mistake or inadvertent omission, it is presumed that the client would not have any objection to make a complete disclosure to the tax authorities.

If the suppression etc. Relates to accounts or returns currently being prepared, the member should advise the client to make full disclosure in the accounts and/or return, and should the client refuse, he should make full reservation in his report, and should not associate himself with the return.

Production of books of account and other documents may be called for under section 131(1)(c) of the income tax act, 1961 here also the protection offered by section 126 of the evidence act, 1872 is a matter for expert legal advice.

# PART-II OF SECOND SCHEDULE

---

## 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 there under or any guidelines issued by the Council:

- This clause requires every member of the Institute to act within the framework of the Chartered Accountants Act and the Regulations and guidelines made by the Council thereunder. The Council so far has issued guidelines under this clause, as appearing in Chapter 4. Any violation either of these guidelines or the Act or the Regulations by a member would be covered as a professional misconduct under this part.

## PART-II Of Second Schedule

---

- **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.

# Council Guidelines for Advertisement, 2008

Publication of Name or Firm Name by Chartered Accountants in the Telephone or other Directories published by Telephone Authorities or Private Bodies

The Chartered Accountants and Chartered Accountants Firms may have entries made in a Telephone Directory (in printed and electronic form) either by making a special request or by means of an additional payment.

Application based Service provider Aggregators It is not permissible for members to list themselves with online Application based service provider Aggregators, wherein other categories like businessmen, technicians, maintenance workers, event organizers etc. are also listed.

## Appointment of Auditor

### **Appointment of an Auditor in case of non-payment of undisputed fees**

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, 2013 or various other statutes has not been paid: Provided that in the case of sick unit, the above prohibition of acceptance shall not apply.



### **Specified number of audit assignments:**

A member of the Institute in practice shall not hold at any time appointment of more than the “specified number of audit assignments” of Companies under Section 141 of the Companies Act 2013. Provided that in the case of a firm of Chartered Accountants in practice, the “specified number of audit assignments” shall be construed as the specific number of audit assignments for every partner of the firm.

## Appointment as Statutory auditor

A member of the Institute in practice shall not accept the appointment as statutory auditor of Public Sector Undertaking(s)/ Government Company(ies)/Listed Company(ies) and other Public Company(ies) having turnover of Rs. 50 crores or more in a year where he accepts any other work(s) or assignment(s) or service(s) in regard to the same Undertaking(s)/ Company(ies) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same Undertaking/company. Provided that in case appointing authority(ies)/regulatory body(ies) specify(ies) more stringent condition(s)/restriction(s), the same shall apply instead of the conditions/restrictions specified under these Guidelines.



## Penalty for falsely claiming to be a member

Any person who –

- not being a member of the Institute-
- (a) represents that he is a member of the Institute; or (b) uses the designation Chartered Accountant; or
- (ii) being a member of the Institute, but not having a certificate of practice, represents that he is in practice or practices as a Chartered Accountant, shall be punishable on first conviction with fine which may extend to one thousand rupees, and on any subsequent conviction with imprisonment which may extend to six months or with fine which may extend to five thousand rupees, or with both.



## Maintenance of Branch Offices

- Where a chartered accountant in practice or a firm of such chartered accountants has more than one office in India, each one of such offices shall be in the separate charge of a member of the Institute: Provided that the Council may in suitable cases exempt any chartered accountant in practice or a firm of such chartered accountants from the operation of this sub-section.
- Every chartered accountant in practice or a firm of such chartered accountants maintaining more than one office shall send to the Council a list of offices and the persons in charge thereof and shall keep the Council informed of any changes in relation thereto.

# Questions

---

Q & A

Aryan noticed that Karan was doing side business on his personal site besides being full time employed, to earn extra cash. Is this right ? What should Aryan do?

1

Help and support Karan in his Side business

2

Ignore the situation

3

Responsible for appropriately addressing, through reporting, consultation, or other means

## Correct Ethical decision-making framework?

1 Identify Dilemma – Consult Experts – Consider Alternatives – Decide & Implement

2 Identify Dilemma – Consider Alternatives – Consult Experts – Decide & Implement

3 Consider Alternatives - Identify Dilemma – Consult Experts — Decide & Implement

4 Consider Alternatives – Consult Experts - Identify Dilemma — Decide & Implement

The Firm R K & Associates has an extensive understanding of Code of Ethics that underlies the fundamental principles relevant to the Auditor when conducting an Audit of Financial Statements and provides a conceptual framework for applying these principles. Which of the following does not form part of the fundamental principle?

1 Integrity

2 Professional Competence and due care

3 Professional Skepticism

4 Professional behavior

Sanjay, due to some personal troubles, is unable to concentrate on work and is making mistakes. The team wants to help him out, but they're not sure what would be the best thing to do

1 Talk to the team lead to check with Sanjay if he needs a break

2 They should not be concerned as it is Sanjay's problem

3 The Team should cover up for his mistakes

4 Talk about the problem with everyone in the office

**THANK**

**YOU**