



# CODE OF ETHICS

BY – CA SHRINIWAS Y. JOSHI

# Provision of Non-Assurance Services to an Audit Client

- ▶ **Firms to comply with fundamental principles of apply conceptual framework to identify, evaluate and address threats to Independence**
- ▶ **Section 141(3)(i) of the Companies Act, 2013 refers to Section 144 which prohibits a company to appoint a firm as an Auditor if it provides certain services to the Company or its holding or subsidiary company, either directly or indirectly.**
- ▶ **Firm shall not assume a Management Responsibility**
- ▶ **Management Responsibilities involve controlling leading and directing on entity, including making decisions regarding the acquisition, department and control of human, Financial technological, physical and intangible resources**

# Provision of Non-Assurance Services to an Audit Client

3

- ▶ **Factors relevant in evaluating the level of threats**
- ▶ **The degree of reliance that will be placed on the outcome of the service as a part of Audit**
- ▶ **Nature and extent of the impact of service on the system that generate information relating to accounting records and Internal Control over Financial Reporting are to be considered.**

# Provision of Non-Assurance Services to an Audit Client

4

- ▶ **Whether outcome will affect matters reflected in the Financial Statements depends upon its material effect on the Financial Statements and degree of subjectivity involved in determining the appropriate amounts treatment of these matters reflected in the Financial Statements.**

# Provision of Non-Assurance Services to an Audit Client

## ► **Safe-Guards -**

- ✓ Safe guards are action that effectively reduce threats to Independence to an acceptable level
- ✓ When safe-guard are not available, Code of Ethics requires the Firm to decline or end the non-assurance service of the Audit Engagement.

# Provision of Non-Assurance Services to an Audit Client

## ► **Accounting & Book Keeping Services -**

- ✓ Providing such services to an Audit client might create a 'Self-reviewed' Threats
- ✓ Such services include –
  - Preparing Accounting Records and Financial Statements
  - Recording Transactions
  - Payroll services

# Provision of Non-Assurance Services to an Audit Client

## ► Accounting & Book Keeping Services – Contd..

- ✓ Such services can be provided as long as the client is responsible for making decisions in preparation of accounting records.
- ✓ Accounting services that are routine and Mechanical require little or no professional judgment
- ✓ Technical Assistance can be provided in resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. Also technical advice or accounting issues can be provided

# Provision of Non-Assurance Services to an Audit Client

## ► Accounting & Book Keeping Services – Contd..

- ✓ Such services shall not be provided to the audit of Public Interest Entity, except when the related entities are collectively immaterial to the Financial Statements.
- ✓ Provision of such services is not permitted as per Guidance Note on Independence of Auditors and under the Companies Act, 2013



# Provision of Non-Assurance Services to an Audit Client

## ▶ **Administrative Services -**

- ✓ include routine or mechanical task within the normal course of operations
- ✓ Such services required little or no profession judgment and are clerical in nature
- ✓ Providing such services to an Audit clients does not usually create a threats.

# Provision of Non-Assurance Services to an Audit Client

## ► Valuation Services -

- ✓ Such services might create a self-review or advocacy threat
- ✓ Such services are prohibited because the threats created cannot be addressed by applying safe-guard
- ✓ Certain valuation do not involve a significant degree of subjectivity e.g. when the underline assumptions are either established by law or regulation or are widely accepted and techniques and methodologies to be used are based on generally accepted standards or prescribed by law or Regulations.
- ✓ Provision of valuation services to Public Interest Entity is prohibited , if it would have a material effect on the Financial Statements certified as auditor.

# Tax Services

- ▶ **Might create a self review or advocacy threat**
- ▶ **Tax Return preparation -**
  - ✓ This does not usually create a threat
  - ✓ It involves drafting compiling information including the amount of tax due and/or advising on the Tax Return treatment of past transactions and responding to Tax Authority for additional information
  - ✓ This service principally involves analysis & presentation of historical information under the existing tax law including precedents & established practice
  - ✓ Tax returns are also subject to review or approval process of the Tax Authority.

# Tax Services

- ▶ **Tax calculations for the purpose of preparing Accounting Entries—**
  - ✓ This service creates a self-review threat as the calculations might have a material effect on the Financial Statements on which auditor will have to express opinion.
  - ✓ For non-public Interest Entities, the safe-guard is –
    - using professionals, who are not audit team members to perform the service
    - Having an appropriate review work, who was not involved in providing the services review the audit work or service performed

# Tax Services

- ▶ **Tax calculations for the purpose of preparing Accounting Entries –contd...**
  - ✓ For Public Interest Entity, the Auditor shall not prepare tax calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries that are material to Financial Statements
  - ✓ However, Auditor may review the tax calculations prepared by the client and provide recommendation
  - ✓ For Public Interest Entity, such service may be provided if the calculations are immaterial to the Financial Statements which are audited.

# Tax Services

## ► Tax Planning and other advisory services

- ✓ Such Service might creates a self review or advocacy threat
- ✓ This service includes advising on Tax Structure for efficient tax management.
- ✓ Such services may be provided, if –
  - a. The tax treatment suggested is supported by ruling or have precedent.
  - b. Is an established practice
  - c. The outcome will not have material effect on the Financial Statements

▶ **Safe-guards to address the threats include –**

- a. Using professionals, who are not part of the Audit Team
- b. Having an appropriate reviewer not involved in providing service review the audit work or service
- c. Obtaining pre-clearance from the Tax authorities.

## ▶ Tax services involving Valuation –

- ✓ This might create a self review or advocacy threat
- ✓ Auditor may perform Valuation for tax purposes only where the result of the valuation will not have a direct effect on the Financial Statements.
- ✓ Auditor may also do a Valuation for tax purposes if the effect on the Financial statements is immaterial or the valuation is subject to review by Tax authorities.



## ► Tax services involving Valuation – Contd..

- ✓ Safe-guard to address the threats are –
  - a. Using professionals who are not Audit Team Member
  - b. Have an appropriate reviewer not involved in providing the service review the Audit work and service performed
  - c. Obtaining pre-clearance from tax authorities
- ✓ A firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statement. In such situations the requirements set out relating to valuation services would apply.

## ▶ Assistance in the Resolution of Tax Dispute

- ✓ This might create a self-review or advocacy threat
- ✓ Safe-guards to address the threats are -
  - a. Using professionals who are not Audit Team Member
  - b. Have an appropriate reviewer not involved in providing the service review the Audit work and service performed

## ▶ Assistance in the Resolution of Tax Dispute...contd..

- ✓ Auditor shall not provide Tax services that involve a system in the Resolution of Tax Dispute, if –
  - a. The service involves acting as an Advocate before a Court
  - b. The amounts involved are material to the Financial Statements

## ▶ Assistance in the Resolution of Tax Dispute...contd..

- ✓ Auditor can do advisory role in relation to the matter being heard before a Court, such as –
  - a. Responding to specific requests for information
  - b. Providing factual accounts or testimony about the work performed
  - c. Assisting the clients in analysing the Tax issues related to the matter
- ✓ The word 'Court' does not constitute a Tribunal.

# Provision of Non-Assurance Services to an Audit Client

## ► Information Technology System Services -

- ✓ These services might create self-review threats
- ✓ Such services include the design or implementation of hardware or software systems
- ✓ The auditor shall not perform such services, if –
  - a. They are related to internal control over financial reporting
  - b. Generates information forming a significant part of the accounting records or financial statements
  - c. 'Are not-of-the-shelf' accounting or financial information reporting software that was developed by the firm.
  - d. Where management does not decide on design and implementation process.

# Provision of Non-Assurance Services to an Audit Client

- ▶ **Information Technology System Services – Cond..**
  - ✓ Auditor may evaluate and make recommendation with respect to an IT System designed, implemented or operated by another service provider or the client
  - ✓ Safe-guard to address such a self-review threats is using professionals who are not audit team members to perform the service.

# Provision of Non-Assurance Services to an Audit Client

## ▶ Information Technology System Services – Cond..

- ✓ The auditor shall not provide IT System Services to an audit client that is a Public Interest Entity if the services involve designing or Implementing IT Systems that -
  - a. forms a significant Part of the Internal Control over Financial Reporting
  - b. Generate information that is significant to the client's accounting records or Financial Statements on which the firm will express an opinion.

# Provision of Non-Assurance Services to an Audit Client

## ▶ **Litigation Support Services**

- ✓ Such service might create a self review or advocacy threat.
- ✓ This service include –
  - a. Assistance in document Management and retrieval
  - b. Acting as a witness
  - c. Calculating estimated damages – Receivables or payable as a result of dispute.



# Provision of Non-Assurance Services to an Audit Client

## ▶ **Litigation Support Services... contd..**

- ✓ Safe-guard is using a professional who is not an audit Team member.
- ✓ This service shall not be performed by the auditor if it involves estimated damages or other amounts that affect the Financial Statements materially on which the Auditor expresses and opinion.

# Provision of Non-Assurance Services to an Audit Client

## ► Legal Services

- ✓ Might create a self review or advocacy threat
- ✓ Legal advisory will include services such as –
  - a. Contract Support
  - b. Support in execution of a transaction
  - c. Merger and acquisition
  - d. Assistance to Internal Legal department.
  - e. Legal due diligence and Restructuring

# Provision of Non-Assurance Services to an Audit Client

## ► Legal Services

- ✓ Such Services shall not be provided by Auditor if such service shall material affect specific matter in relation to the client's Financial Statements
- ✓ Safe-guards to address the threats are -
  - a. Using professionals who are not Audit Team Member
  - b. Have an appropriate reviewer not involved in providing the service review the Audit work and service performed
- ✓ Auditor shall not serve at General Counsel for Legal Affairs of the Audit Client.
- ✓ Firm shall not act in advisory role for an audit client in resolving a dispute or litigation when amounts involved are material to the financial statements on which the firm will express an opinion

# Provision of Non-Assurance Services to an Audit Client

## ▶ Recruiting Services -

- ✓ Such services might create a self interest, familiarity or intimidation threat
- ✓ Auditor can provide the services that –
  - a. Reviewing the professional qualification
  - b. Advising on candidate's competence

# Provision of Non-Assurance Services to an Audit Client

## ► Recruiting Services ...Contd..

- ✓ Such threats can be avoided if the client makes all management decisions with respect to the hiring process such as –
  - a. Determining the suitability of the candidate
  - b. Selecting the candidate
  - c. Determining/negotiating employment terms.
  
- ✓ Safe-guards to address the threats are -
  - a. Using professionals who are not Audit Team Member
  - b. Have an appropriate reviewer not involved in providing the service review the Audit work and service performed

# Provision of Non-Assurance Services to an Audit Client

## ► Recruiting Services ...Contd..

- ✓ Auditor shall not provide recruiting services such as –
  - a. Role of a negotiator
  - b. Searching for or seeking out candidates
  - c. Undertaking reference checks of prospective candidate's for position of a Director or Officer or a member of Senior Management

# Provision of Non-Assurance Services to an Audit Client

## ► **Corporate Finance Services -**

- ✓ Such services might create a self-review or advocacy threat
- ✓ Such services include –
  - a. Developing Corporate Strategies
  - b. Identifying possible targets for the client to acquire
  - c. Advising on disposal transaction
  - d. Raising Finance
  - e. Financial Structuring

# Provision of Non-Assurance Services to an Audit Client

## ► Corporate Finance Services...Contd..

- ✓ Such services should not be provided by the Auditor if -
  - a. It involves promoting, dealing in or under writing the client's shares
  - b. The advice depends on a particular accounting treatment or disclosures where auditors has a doubt as to appropriateness thereof, or the consequences of advice will have a material effect on Financial Statements.



# Provision of Non-Assurance Services to an Audit Client

## ▶ Corporate Finance Services...Contd..

- ✓ Safe-guards to address the threats are -
  - a. Using professionals who are not Audit Team Member
  - b. Have an appropriate reviewer not involved in providing the service review the Audit work and service performed

THANK YOU