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Code of Ethics

CA Shriniwas Y. Joshi

Introduction

- CA Act, 1949 – As amended in 2006 and 2022
- Sec. 22 deals with misconduct of the member of the institute
- First Schedule Part 1- Professional misconduct for CAs in Practice
 - Enters into partnership with a non-member
 - Advertises professional attainments
 - Fails to communicate with outgoing Auditor
 - Engages in any other occupation
 - Allows non-member/non-partner to sign documents on his behalf

Introduction

- **Second Schedule Part 1- Professional misconduct for CAs in Practice**
 - **Disclosure of information without client's consent**
 - **Fails to disclose material facts in Financial Statement**
 - **Fails to report a known material misstatement appearing in Financial Statement**
 - **Fails to obtain sufficient information for expressing an opinion**

Ethical Standards deals with ethical requirements of members in Practice & members in Service (NFRA)



ETHICAL STANDARDS

(Amendments w.e.f. 1st July, 2020)

CA Shriniwas Y. Joshi

Five Most Important Substantive Changes in Volume-I

2009 Code	Volume-I of New Code
No such provision	Responding to Non-Compliance of Laws and Regulations (NOCLAR)
No prohibition on Tax services to Audit clients	Restrictions on Tax services to Audit clients
No such provision	Prohibition on Management Responsibilities to the audit clients
Recommendatory 40% restriction on Fees from an audit client	Safeguards on Fees from single client –if its consecutively for 2 years. Requirement of disclosure to the Institute if exceeds prescribed threshold limit
No such provision	Duty of Accountant in case of breach of <i>Independence Standards</i>

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

Part 1 (Applicable to all Professional Accountants)

Complying with the Code, Fundamental Principles and Conceptual Framework

Part 2

Professional Accountants in Service

Part 3

Professional Accountants in Public Practice

Independence

Standards (Parts 4A & 4B)

Part 4A—Independence for Audits & Reviews

(Sections 400 to 899)

Part 4B—Independence for Other Assurance Engagements

(Sections 900 to 999)

Glossary (All Professional Accountants)

Compliance of the Code of Ethics

- ❖ Part-A of ICAI Code of Ethics, 2009 (based on 2005 IESBA Code) was issued as a Guideline of the Council.
- ❖ Code of Ethics, 2019 (Volume – I) also issued as a Guideline of the Council. Further, there is change in drafting from “should” to “shall”, and requirements are clearly demarcated.
- ❖ As a result, the non-compliance of provisions of the Code will be deemed as violation of Clause (1) of Part-II of Second Schedule of the Chartered Accountants Act, 1949:-
A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he –
 - (1) contravenes any of the provisions of this Act or the regulations made thereunder, or any guidelines issued by the Council

Compliance of the Code of Ethics

- ❖ Further, as per Section 15 of Chartered Accountants Act, 1949, as amended by Chartered Accountants (Amendments) Act, 2022, there is express authority to Council to issue guidelines :-
 - *Section 15 of the Chartered Accountants Act, 1949*
“Function of the Council”
 - *Xx* *xx* *xx*
 - *(fa) to issue guidelines for the purpose of carrying out the objects of this Act;”;*

Public Interest Entity

- ❖ 2019 edition contains a new term “Public Interest Entity” (PIE)
 - ❖ Enhanced independence requirements for PIE clients in the new Code
 - ❖ 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.*

Public Interest Entity

❖ *Other entities might also be considered by the Firms to be public interest entities, as set out in paragraph 400.8*

❖ Provision of Para 400.8

Other entities might also be considered by the Firms to be public interest entities, because of -

- 1) Wide range and large number of shareholder,
- 2) The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, pension funds,
- 3) Size,
- 4) Number of employees.

Documentation

- ❖ 2009 Code required Firms to document as to their conclusions regarding compliance with independence requirements (Para 290.27)
- ❖ In the 2019 Code, the requirements of Documentation given in greater detail. PA encouraged to document:
 - The facts.
 - The accounting principles or other relevant professional standards involved.
 - The communications and parties with whom matters were discussed.
 - The courses of action considered.
 - How the accountant attempted to address the matter(s).

Documentation

- ❖ Requirements for NOCLAR – has to be sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions. Thus, documentation is of critical importance in manifesting compliance with NOCLAR.

Fees (Sections 330, 410.9, 905.6)

LEVEL OF FEES

- ❖ The level and nature of fee might create a self interest threat to compliance with one or more of fundamental principles.
- ❖ The level of fees quoted might impact a professional accountant's ability to perform professional services in accordance with professional standards.
- ❖ A professional accountant might quote whatever fee is considered appropriate. Quoting a fee lower than another accountant is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.

Fees (Sections 330, 410.9, 905.6)

- ❖ **Factors that are relevant in evaluating the level of such a threat include:**
 - **Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.**
 - **Whether the level of the fee is set by an independent third party as a regulatory body**
- ❖ **Actions that might be safeguards to address such a self-interest threat include:**
 - **Adjusting the level of fees of the scope of the engagement.**
 - **Having an appropriate reviewer review the work performed**

Fees (Sections 330, 410.9, 905.6)

Relative Size of Fees

➤ When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.

➤ A self-interest or intimidation threat is also created when the fees generated by a firm from an audit client represent a large proportion of the revenue of the partner or one office of the firm

Fees (Sections 330, 410.9, 905.6)

Relative Size of Fees

- Actions that might be a safeguard to address such a self-interest or intimidation include:
 - ❖ Increasing the client base of the partner or the office to reduce dependence on the audit client
 - ❖ Having an appropriate reviewer who did not take part in the audit engagement review the work.

Fees (Sections 330, 410.9, 905.6)

Relative Size of Fees

- Where for two consecutive years, the total gross annual professional fees (“total fees”) from the client and its related entities represent more than specified percentage of the total fees received by the firm.
 - ❖ For non Public Interest Entities (non-PIE)- Disclosure required where for two consecutive years, the gross annual professional fees from an audit client and its related entities represent more than 40% of the total fees of the firm.
 - ❖ For public interest entities (PIE)- Disclosure required where for two consecutive years, the gross annual professional fees from an audit client and its related entities represent more than 20% of the total fees of the firm.

Fees (Sections 330, 410.9, 905.6)

Relative Size of Fees

- No such ceiling on the total fees of the firm would be applicable where such fees do not exceed twenty lakhs of rupees in respect of a firm including fees received by the firm for other services.
- 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 or the Regulator.
- When the limit is exceeded for the two consecutive years, the disclosure should be made to ICAI in the described format before 31st December of the subsequent year.

Fees (Sections 330, 410.9, 905.6)

Contingent Fees

- **Code of Ethics, 2009 (Paragraph 290.197) - fees based on percentage of profits or contingent upon the findings, or results of such work not allowed (as per Clause 10 of Part-I of First Schedule to CA Act) except as permitted under Regulation 192**
- **A contingent fees might create self-interest threat to compliance with the principle of objectivity**
- **Cases which are permitted under Regulation 192 of The Chartered Accountants Regulations, 1988 are as under:**
 - (a) in the case of a receiver or a liquidator, the fees may be based on a percentage of the realisation or disbursement of the assets;**

Fees (Sections 330, 410.9, 905.6)

Contingent Fees

(b) in the case of an auditor of a co-operative society, the fees may be based on a percentage of the paid-up capital or the working capital or the gross or net income or profits;

(c) in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of the property valued.

(d) in the case of certain management consultancy services as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;

Fees (Sections 330, 410.9, 905.6)

Contingent Fees

- (e) in the case of certain fund raising services, the fees may be based on a percentage of the fund raised;**
- (f) in the case of debt recovery services, the fees may be based on a percentage of the debt recovered;**
- (g) in the case of services related to cost optimisation, the fees may be based on a percentage of the benefit derived; and**
- (h) any other service or audit as may be decided by the Council.**

Fees (Sections 330, 410.9, 905.6)

Contingent Fees

The Council, pursuant to authority vested under clause (h) mentioned above, has in the following circumstances, permitted

Charging of fee based on percentage of profits or contingent upon the findings, or results of such work :-

- **Charging of Fees by Members enrolled as Insolvency professional rendered either individually or as an entity under Insolvency and Bankruptcy Code, 2016 and rules made thereunder.**
- **Fee for rendering Non-assurance services to non-audit clients**



Amendments in NOCLAR

[Section 260 & 360]

CA Shriniwas Y. Joshi

Responding to Non-Compliance with Laws and Non-Compliance with Laws and Regulations (NOCLAR) - Sections 260 and 360

- ❖ **Refers to any act of omission or commission, committed by a client or employer contrary to prevailing laws or regulations.**
- ❖ **Recognizing that such a situation can often be a difficult and stressful one for the member and accepting that he has a prima facie ethical responsibility not to turn a blind eye to the matter, NOCLAR was introduced to help guide him in dealing with the situation and in deciding how best to serve the public interest in these circumstances.**

NOCLAR – Scope of Laws and Regulations

- ❖ **Laws and regulations that have a nexus to PAs' professional training and expertise, i.e.:-**
 - **Laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements**
 - **Other laws and regulations, compliance with which may be fundamental to the entity's business and operations or to avoid material penalties.**
- ❖ **Examples of laws and regulations required to be addressed are :- Fraud, corruption and bribery, Money laundering, terrorist financing and proceeds of crime, Securities markets and trading, etc.**

NOCLAR – Scope of Laws and Regulations

When responding to non-compliance or suspected noncompliance, the objectives of the professional accountant are:

(a) To comply with the principles of integrity and professional behaviour;

(b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:

(i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected noncompliance; or

(ii) Deter the non-compliance where it has not yet occurred; and

(c) To take such further action as appropriate in the public interest

NOCLAR – Scope of Laws and Regulations

- ❖ **Following matters are not in scope of NOCLAR:-**
 - **Matters clearly inconsequential**
 - **Personal misconduct unrelated to the business activities of the client or employer**
 - **Non-compliance other than by the client or employer, or those charged with governance, management or other individuals working for or under the direction of the client or employer**
- ❖ **PA required to address NOCLAR **only when, and if**, he encounters the same **in the course of providing a professional service**.**
- ❖ **Appropriate authority for the purpose of disclosure will depend on the nature of the matter. For example, the appropriate authority would be SEBI in the case of fraudulent financial reporting**

SA 250 and NOCLAR – Comparison

SA 250	NOCLAR
Applicable to audit only, and not on other Assurance engagements.	Applicable on PAs in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than Audit. However, degree of responsibility of the professional accountant varies as per the role. In India, it has been made applicable to Audit only.
Talks of auditor's responsibilities for laws having direct effect on the determination of material amounts and disclosures in the financial statements	NOCLAR, while being alike to SA 250 till this point, is further ahead of it in that it takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.

SA 250 and NOCLAR – Comparison

SA 250	NOCLAR
SA 250 does not define stakeholders.	NOCLAR is related to affect of non-compliance on investors, creditors, employees as also the general public.
The auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations	As per R 360.13 of NOCLAR, Auditor shall advise client to rectify, remediate consequences of non-compliance, and also deter the non-compliance.

SA 250 and NOCLAR – Comparison

SA 250	NOCLAR
Other laws EXAMPLES given e.g. compliance with the terms of an operating license, compliance with regulatory solvency requirements, or compliance with environmental regulations)	No examples in NOCLAR
If the auditor concludes that the non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with Proposed SA 705, express a qualified or adverse opinion on the financial statements.	SA 250 duty is mainly of reporting in Audit Report. NOCLAR duty comprises of steps to be taken otherwise than reporting in Audit Report

SA 250 and NOCLAR – Comparison

SA 250	NOCLAR
<p>If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether the auditor has a responsibility to report the identified or suspected non-compliance to parties outside the entity</p> <p>SA 250 mentions that the Auditor will determine whether to disclose outside the entity (No parameter given for such consideration)</p>	<p>R 360.21 mentions that the determination of further action (including the disclosure) will depend on whether a reasonable and informed third party would conclude that he has acted appropriately in public interest.</p>

Amendments in newly applicable provisions NOCLAR for members in practice – Applicability (Section 360)

- **Earlier Provision:**

- **Applicable to Audit Engagements of all listed entities.**

- **Revised Provision:**

- **Applicable to Audit Engagement of entities having net worth of Rs. 250 crores or more and where shares are listed on recognised stock exchange(s) in India.**
- **The applicability of Section 360 will subsequently be extended to all listed entities, at the date to be notified later.**

Amendments in newly applicable provisions NOCLAR for members in practice – Applicability (Section 360)

Communication with Respect to Groups

Where a professional accountant **during the audit of consolidated financial statements** becomes aware of noncompliance in relation to a component of a group, where the parent company is listed (in India) or the component is a listed entity, the accountant shall communicate the matter to the group engagement partner.

Pending Fees from the continuing client – whether a bar on signing of Audit?

- ❖ **As per paragraph 410.7 A1 of the Volume-I of Code of Ethics, a self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued.**
- ❖ **As per paragraph 410.7 A2 of the Code, examples of actions that might be safeguards to address such a self-interest threat include:**
 - **Obtaining partial payment of overdue fees.**
 - **Having an appropriate reviewer who did not take part in the audit engagement review the work performed.**

Pending Fees from the continuing client – whether a bar on signing of Audit?

- ❖ **As per paragraph R410.8 of the Code, when a significant part of fees due from an audit client remains unpaid for a long time, the firm shall determine:**
 - (a) Whether the overdue fees might be equivalent to a loan to the client; and**
 - (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.**

There is however no bar in signing the financial statements in these circumstances.



ETHICAL STANDARDS

(Amendments w.e.f. 1st April, 2026)

CA Shriniwas Y. Joshi

Changes: Volume-I

- ✓ **Changes made in convergence with the IESBA Code of ethics, 2024 edition instead of IESBA 2018 edition.**
- ✓ **New Chapter 5: Ethics Standards for Sustainability Assurance Engagement**
- ✓ **Section 360 “Responding To Non-Compliance with Laws And Regulations” (NOCLAR) during the course of Audit Engagements of Listed Entities: the criterion of Rs. 250 Crores removed (NOCLAR now applicable to all listed entities and their material subsidiaries).**

Changes: Volume-I

- ✓ **Revision in total fees – Fee Dependency : 2 years and 20% threshold for Public Interest Entity (PIE) clients; 5 years for non-PIE clients while maintaining the 40% threshold.**
- ✓ **Non acceptance of Audit of PIE where Non-Assurance Service of same entity was done prior.**
- ✓ **Change in definition of PIE to include entity one of whose main functions is to take deposits from the public.**
- ✓ **Change in Section 511 (Loan to audit clients) to include materiality quantified to be Rs. 5 Lakhs.**

Changes: Volume-II

- ✓ **“Management Consultancy and Other Services” issued by Council u/s. 2(2)(iv) of the Chartered Accountants Act, 1949 to include services of Forensic Accounting, Administrative Services, Research Analyst, Social Impact Assessment and Evaluation, CSR Impact, Business Responsibility and Sustainability Reporting and Artificial Intelligence and permitting the development of websites, subject to requisite amendments.**
- ✓ **Name of the firm can be added to directories and removal of limit on font size.**

Changes: Volume-III

- ✓ Increasing limit of indebtedness of CA to a concern from Rs. 1 Lakh to Rs. 5 Lakhs.
- ✓ Covering insolvency proceedings as exemption to non-acceptance of Audit in case of pending audit fees.

Proposed Changes: CA Act, 1949

- ✓ CAs in practice to be allowed to form partnerships with other professionals under Insolvency Professionals Entities (IPE)/Registered Valuer Entities (RVE).
- ✓ Allowing event sponsorship and permission to conduct of webcast.
- ✓ In addition to Registered Post and E-mail, the NOC of previous auditor can be obtained via Speed Post with Acknowledgement Due.
- ✓ To permit quoting or accepting audit fees based on a percentage or range of turnover.

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FAQs

CA Shriniwas Y. Joshi

FAQ on Designation

Whether the designation “Chartered Accountant” along with the name of Chartered Accountants Firm can be used on the greeting cards or invitations?

FAQs on Advertisement

- ✓ Can a Chartered Accountants firm give advertisement in relation to Silver, Diamond, Platinum or Centenary celebration of the firm?
- ✓ What should be the Size of Sign Board?
- ✓ Whether display of Sign Board mentioning the services of the Firm is permissible to be put inside the premises of the Office of the said Firm?
- ✓ If a member is a partner in more than one firm, is it permissible to print the names of all the firms on visiting cards, letter-heads, stationery etc.?

FAQs on Advertisement

- ✓ Whether the office of a Chartered Accountant is permitted to go in for ISO certification or other similar certifications?
- ✓ If a member in practice has cleared any certificate course of ICAI i.e. Certificate course on Ind AS, Certificate course on GST etc. Is he permitted to print such qualifications on visiting cards, letterheads, and other stationery?
- ✓ Whether the members in practice can print their photograph on their visiting cards?

FAQs on Advertisement

- ✓ Whether a member in practice is permitted to have his name published in Telephone Directory?
- ✓ Can a Chartered Accountant in practice give the date of setting up the practice or date of establishment on the letterheads and other professional documents, etc.?
- ✓ Can a member in practice print QR (Quick response) code on his visiting cards, facilitating easy access to information?

FAQs on Mis-conduct

- ✓ **What is other Mis-conduct?**
- ✓ **Separate Bank Account for other than Fees or Remuneration or money to be expended?**

FAQs on Management Consultancy Services

- ✓ Whether a member in practice is permitted to undertake the management of NRI funds?
- ✓ Can a Chartered Accountant provide 'Portfolio Management Services' (PMS) as part of CA practice?

FAQs on Directorship

- ✓ Whether a member in practice who was Auditor of a company, can accept position of Independent director after completion of Audit assignment?
- ✓ Whether a member in practice can become a Managing director or a whole-time director in a Company registered under Section 8 of Companies Act, 2013?
- ✓ Whether a member in practice who earlier held the position of Director Simplicitor/ Independent Director in a company, accept audit assignment of the company after completion of his tenure as director?

FAQs on Other Matters

- ✓ Whether CA firm can register itself on Udyog Aadhar Portal of MSME Ministry.
- ✓ Can Chartered Accountant exercise lien over the clients' documents/records for non payment of his fees?
- ✓ What are the professional reasons for not accepting Audit?
- ✓ What would be recourse taken by the Incoming auditor in case of qualified Audit Report by retiring auditor?

FAQs on Other Matters

- ✓ Who is “previous auditor” (or retiring auditor) for the purposes of communication to be made in terms of clause (8) of Part I of First Schedule to the Act?
- ✓ Whether communication by the Incoming auditor is mandatory with the previous auditor in respect of various audit assignments, like the concurrent audit, revenue audit, tax audit and special audits etc.?

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Thank you

CA Shriniwas Y. Joshi