

# Professional Ethics (18-20 marks)

- fundamental principles
- Threats + Safeguards
- Membership provisions
- Branch office
- etc

Schedules

Council Guidelines

ESB decisions + NOLAR

## Fundamental Principles (C.O.I Professional)

- Confidentiality: Not disclose info. of client/employee (ex/present/prospective)

Don't use info. for personal advantage.

↳ Insider trading

Circumstances → Disclose info ✓

- Regd. by law (Sec 143(12) → fraud → CI)
- Permitted by law & authorised by client/employee. (Tax return file)

- 4 other cases

(2x pyare)

- Comply with Peer/Quality Review

↓

- Comply with Technical & Professional Stds. including Ethics (TPE Stds)

(2x bande) NFA

- Respond to Inquiry/Investigation

↓ (pakde gaye)

- Protect Intl. fn legal proceedings.

When deciding to disclose info. → consider following:

- a) All info. is known & substantiated (supported by evidence) <sup>kyad?</sup>

- b) Type of communication & to whom its addressed. <sup>kaise?</sup>

- d) Intl. of any party might be affected? <sup>kisiko forak?</sup>

- c) Parties are appropriate recipients. <sup>kisiko?</sup>

- Objectivity: Don't compromise P.J. (decisions) [Apka decision → Apka]

because of <sup>x</sup> biasness, conflict of int or undue influence of others

(Eg B Auditor → A's wife ke Brother)

- Integrity: straightforward + honest + NEVER associate with info. that's

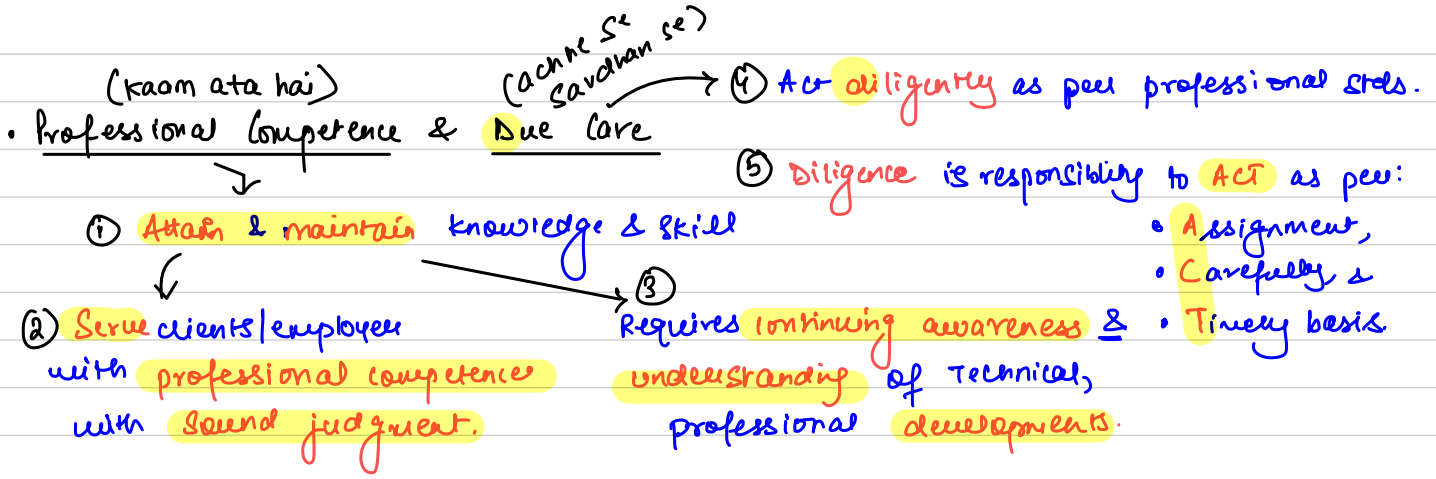
materially false,

(check p) provided negligently

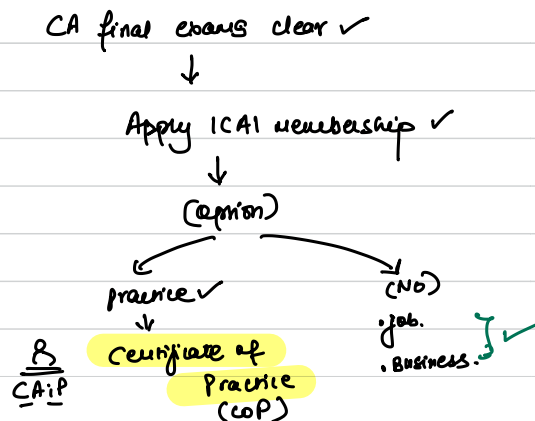
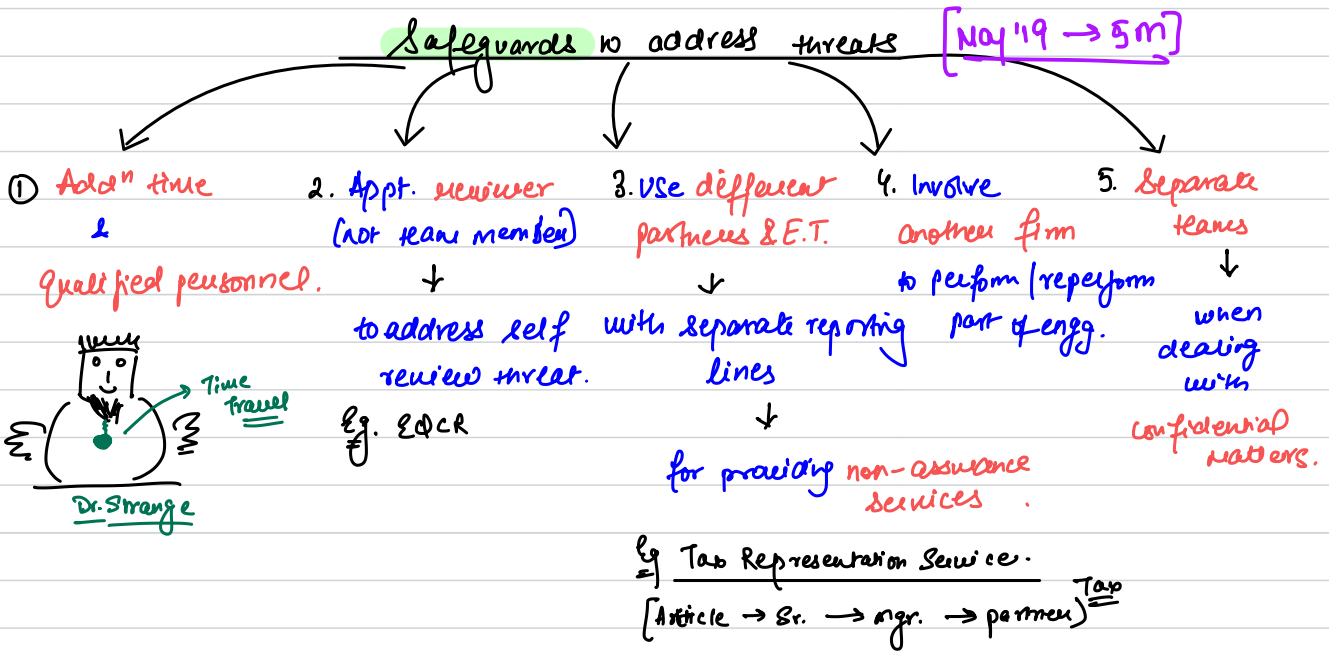
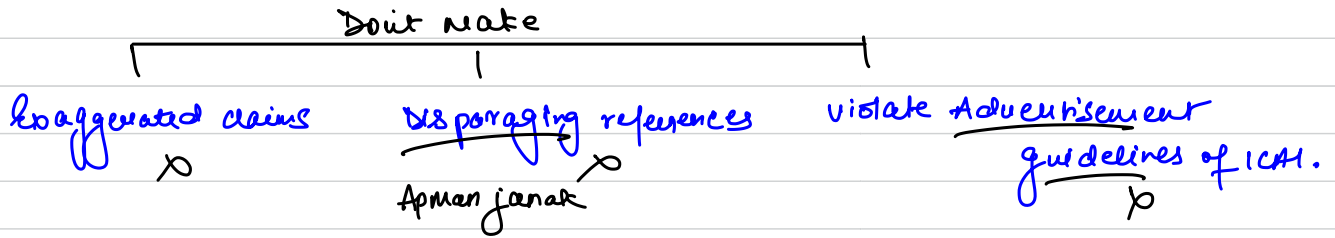
or omits the reqd. info.

Error

Division



Professional Behaviour: Comply with LR & avoid any conduct that can discredit profession.



Sec 6 (1) Practice  $\Rightarrow$  CoP.  $\checkmark$

$\downarrow$   
(2) Pay annual fees  $\times \rightarrow$  (3) certain circumstances  $\rightarrow$  CoP cancelled.

Rough

C.A.I.P  
Suspend

$\rightarrow$  CoP surrender

$\rightarrow$  CA wale kaam allowed? No

$\rightarrow$  Baki kaam? Yes

Case: CAIP suspend  $\rightarrow$  CoP surrender (6 months)  $\Rightarrow$  Represented client before  
Income Tax Authorities.

[Allowed? No]

• If member is suspended & not holding CoP,

he can't practice in any other capacity separable from member of ICAI.

•  $\circ \circ$  once a person becomes ICAI member, he's bound by ICAI Act & its regulations.

• He can't set regulations at naught by contending he's entitled to practice in other capacity.  
(violates)

$\therefore$  if he's appearing before IT authorities, he's doing so in capacity of CA.

F.4.9.

IT Auth. represent?  
Sec 288

• CAIP

• Advocate

• Relative / Employee.

• IT practitioner.

CA  $\rightarrow$  Co.  $\rightarrow$  Data Privacy consultancy  $\rightarrow$  Allowed

David

Sec 2(2) Members <sup>(naan lenge)</sup> deemed to be in practice

↓  
Activities

Doing ✓  
↓  
Allowed to CAIP.

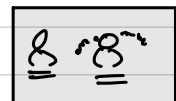
Need COP

Activities? → Accounting → Consultancy (AS 19 and AS) → Interpret.  
→ FS. check (Verification/Audit/Certifications)  
→ Represent for Tax Auth.  
→ other services. } Actually offer.

↓  
Sec 2(2)(iv)

Council has allowed not consultancy & other services.  
(List → Book read)

Sp. point: CA firm → CA Employee (CAIP) → Articles regd.  
Sign A/R only for training A.A.

Naman → Intra D.P. → change ↓  
New D.P.  Naamni pass krni

ICAI → CAIP → one? designation? Chartered Accountant.  
(Prof. decs)

- Director of Co. x
- Member of Political Party x
- Cost Accountant x → Degree ✓ → ACMA/FCMA ✓
- Corporate lawyer x → L.L.B ✓
- Any other designation x

Exceptions 1. Co. → prospectus → Advisor/consultant to issue ✓  
CA Nirali + firm Name ✓

2. ICAI → Foreign Institutes of Accountancy (M.O.U. | M.R.A)  
↓  
membership ✓

CPA Ireland, SAICA  
(South African Institute of CAs.)

ICAEW  
(I.C.A. of England & Wales.)

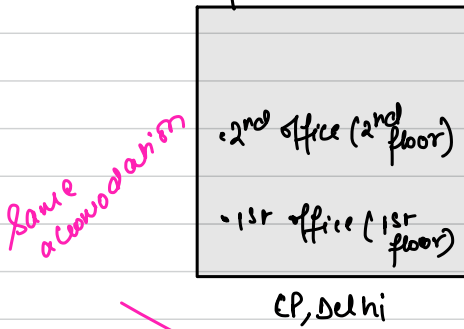
Branch office

CA P. Rishi

CA. Tushar.

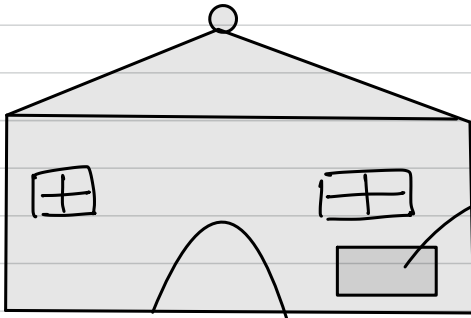


3 exceptions (2<sup>nd</sup> office) → No need for separate CA.



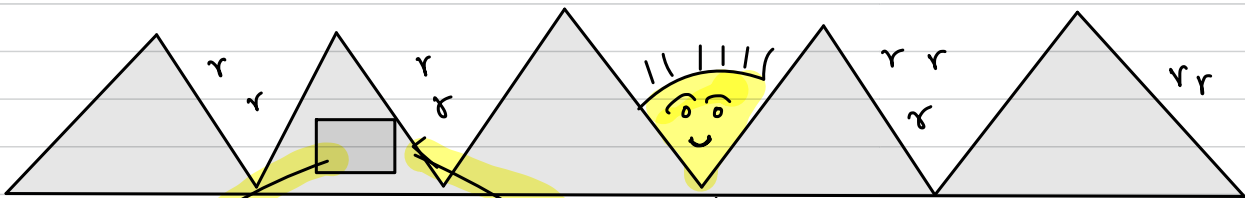
*Same city*  
or 2<sup>nd</sup> office [Karol Bagh, Delhi] or 2<sup>nd</sup> office Gurugram  
within 50 kms. from municipal limits of city.

• Declare to ICAI → main office → prof. address.



Name plate.

CA Rishi  
(Partner, Rishi & Associates) *not allowed*



Manali  
(3 months [NID])  
1. close? No,  
receive couriers.

open  
Temporary office  
(plain area)

4. ICAI ko  
Barage

2. Prof docs. → Place of business? No (Temporary).
3. close T.O. → Name Board display? No.

Part I of First Schedule to CA Act 1949  
(Professional misconduct for CAIP)

Clause (i) Part I of First Schedule. to CA Act 1949

A CAIP shall be deemed to be guilty of P.M., if he:

Allows any person to practice in his name as a CA.

unless

such other person is also a CAIP ]? Safeguard public against unqualified accountants.

&  
is in partnership/employed by him

work is done under his normal supervision

Allow

CA SF (firm)

Mr. Pookie [CAIP / CAIP → partner/employee]

- My nameboard ✓
- letter head ✓
- services ✓

Q 16

CAIP

CA Pant

• Auditor of Sant's firm etc.

CA Sant (CAIP)

• Newly Qualified CA

Allow practice in Pant's name

- sit in Pant's office
- file returns / provide consultancy for Pant
- Represent before tax auth.

x salary } to employee  
x share of profit } to partner

✓ Reimb. of expenses

→ ₹ 3L lump sum pay.

8  
CAIP / Firm → Behalf → can sign? CAIP + Partner/Employee

Clause (12) A CAIP shall be deemed to be guilty of P.A., if he:

Allows a person → not CAIP.

or  
→ a member but not his partner

↓  
to sign on his behalf / behalf of firm any  
As or report  
B.S.  
P.L.

Routine matters → Delegate ✓  
(to opinion  
to certification)

MEMORANDUM OF CASH VERIFICATION	
Date: 15 May 2018	Time: 11:20 AM
Location: Corporate Office, Mumbai	
Person in Charge: Mr. Raju Khanna (Accounts Officer)	
Department: (Dept.) / (Unit)	
RS000	140 20,000
FR01	138 15,000
FR02	135 10,000
Other	132 10,000
TOTAL CASH	148 50,000
Cash as per books	145,000
DIFFERENCE	Rs.
Remarks: Cash verified in presence of witnesses, no discrepancy noted.	
Signature of Auditor: _____	
Signature of Cashier: _____	

Q.2

Clause (2) CrP shall be deemed to be guilty of P.M, if he,

• pays/allows or agrees to pay/allow (directly/indirectly)

any <sup>Share Com Bro.</sup> share, commission or brokerage in fees/profits of his profession

to any person

Other than

member of ICAI ✓

or

partner/retired partner/  
legal representative of  
deceased partner ✓

or

member of professional body/  
having prescribed  
qualifications \*

⇒ for rendering professional services in/outs India.

\* CS (ICSI) / Cost A/c (ICMAI) / LLB/Advocate (Bar Council) / Architect / Accountant / B. Engg / Tech / M.B.A.

• CS / Cost A/c

AAA

• Advocate / lawyer

• Architect

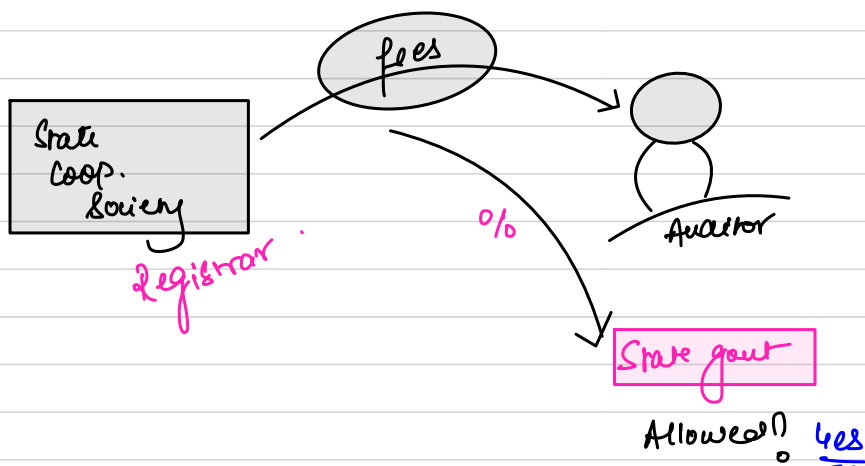
• Accountant

• Engineer (B. Engg Tech)

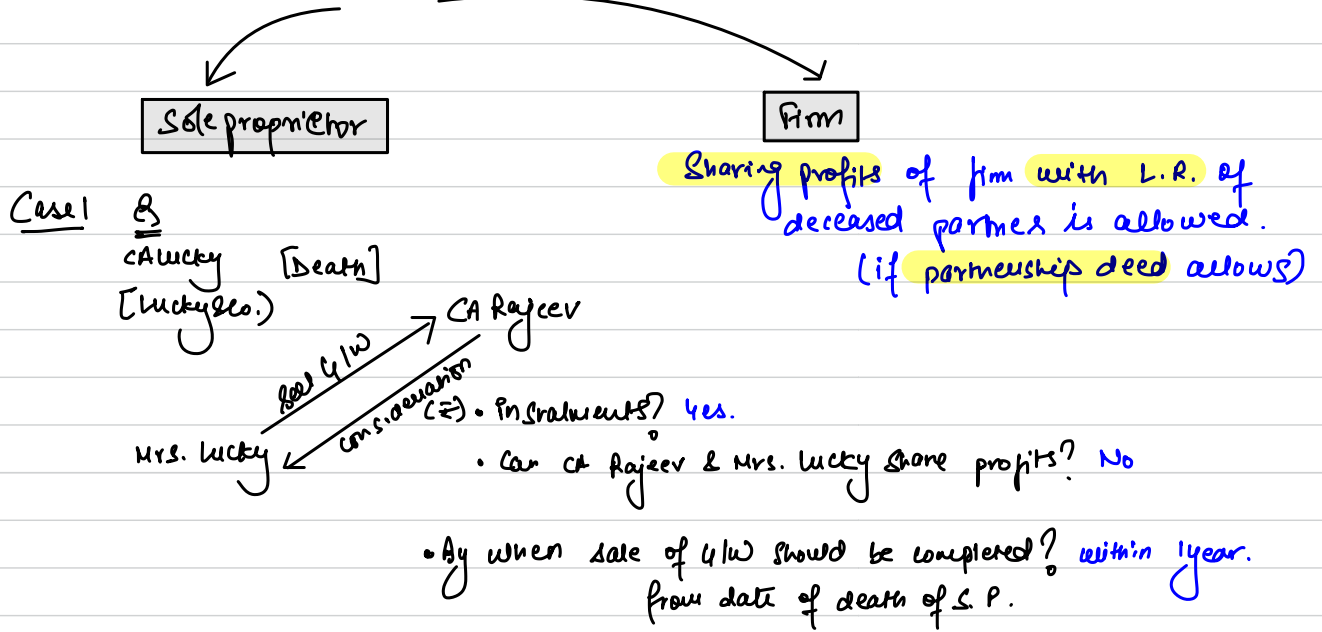
• MBA.

[Recognised institutes]

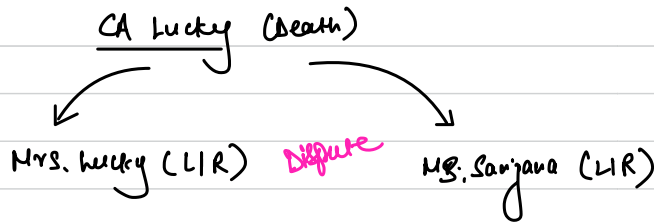
Sp. points: ①



## Death cases



## Case 2



• Inflow ICAI within 1 yr about dispute.

• Dispute resolved 1 year → sale of U/W is allowed.

## Clause (4)

Enters into partnership (Pn/OIS India) with any person

other than [Exception]

CAIP

[Clause (2) Share → member of ICAI]

or

person who's member of professional body with prescribed qualifications.

(Same as clause (2) except MBA/B.Tech)

or

who's qualifications recognised by CI or Council of ICAI

for permitting such partnerships

Co.  
Ch-xvii

# 1 1?

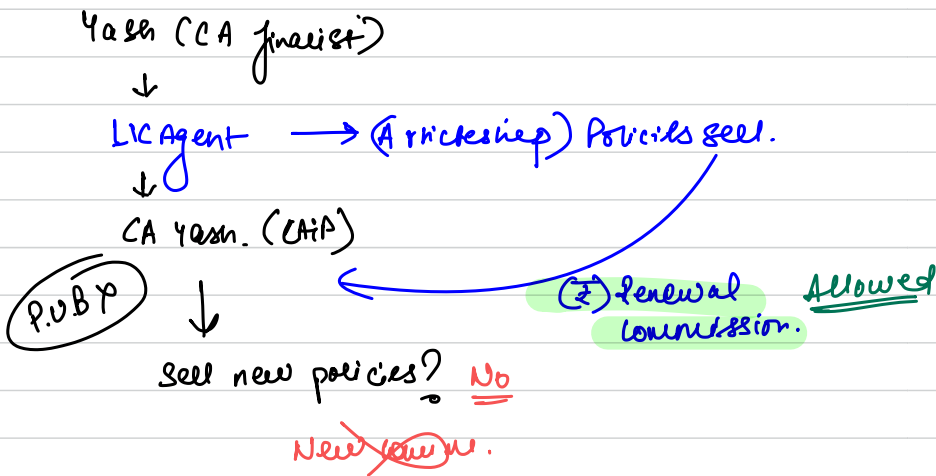
## CAIP Business?

Clause (11) Engages in any occupation/Business other than CA profession.

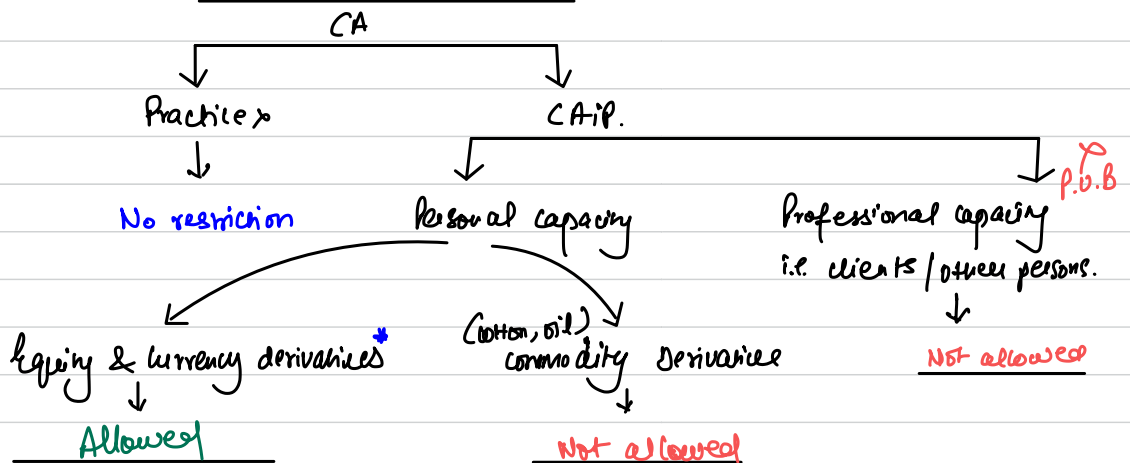
unless permitted by council.

⇒ CAIP can become director of co. → M.D. / W.T.D. \*  
(Non-executive) → He/partner not auditor of co.  
↓  
sitting fees.

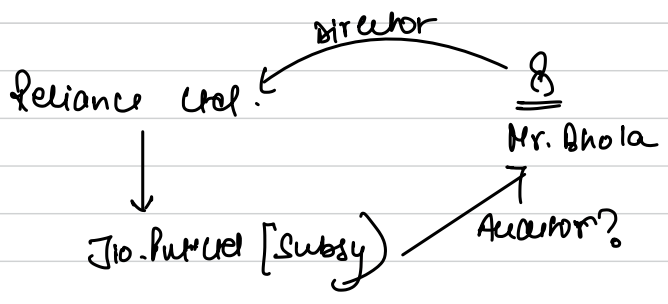
\* Except. regt. consulting co. (ch-xvii) of council guidelines.



### Derivative Transactions



\* Not in firm's name  
+ Index derivatives also allowed

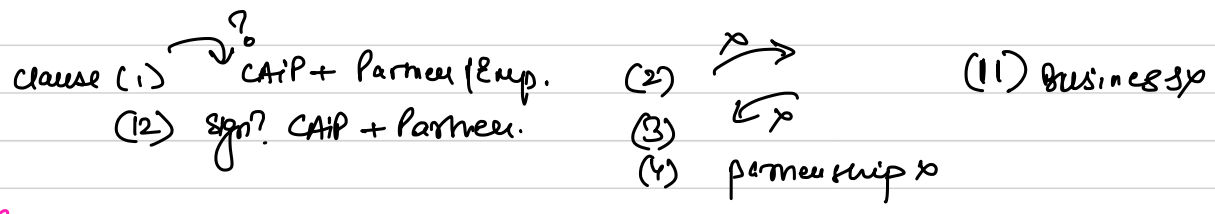


Cas. Act 141(3)

Allow

Ethical Std Board

- Affect independence.
- Public confidence should be kept ahead of law.



Clause (6) Solicit client | professional work (directly | indirectly) by (wanga)

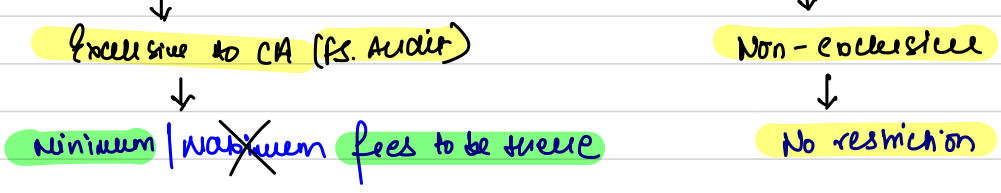
- CAP I
- Circular,
  - Advertisement,
  - Personal communication or
  - Interviews.

Exceptions

CAIP can SART work from another CAIP. or Respond to Tenders\*

- Secure
- Apply
- Request
- Invite

\* Tenders (Service)



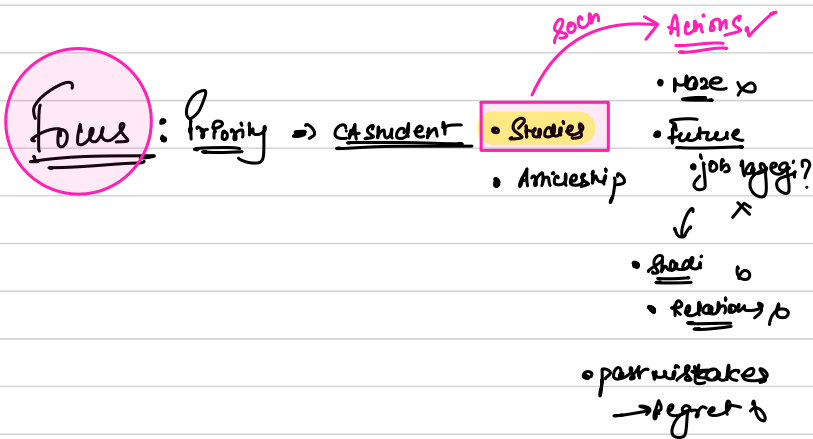
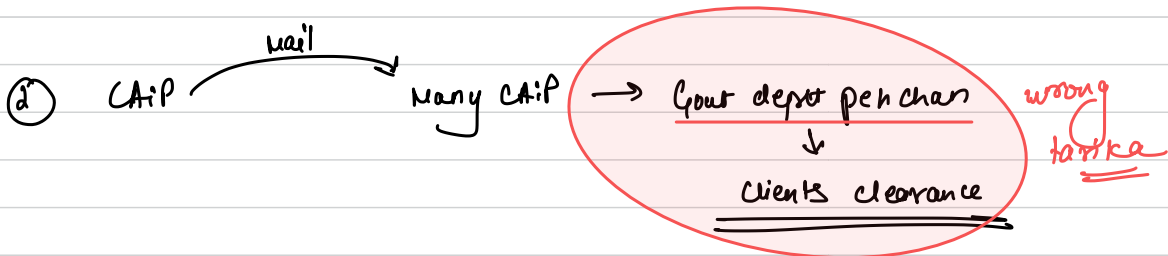
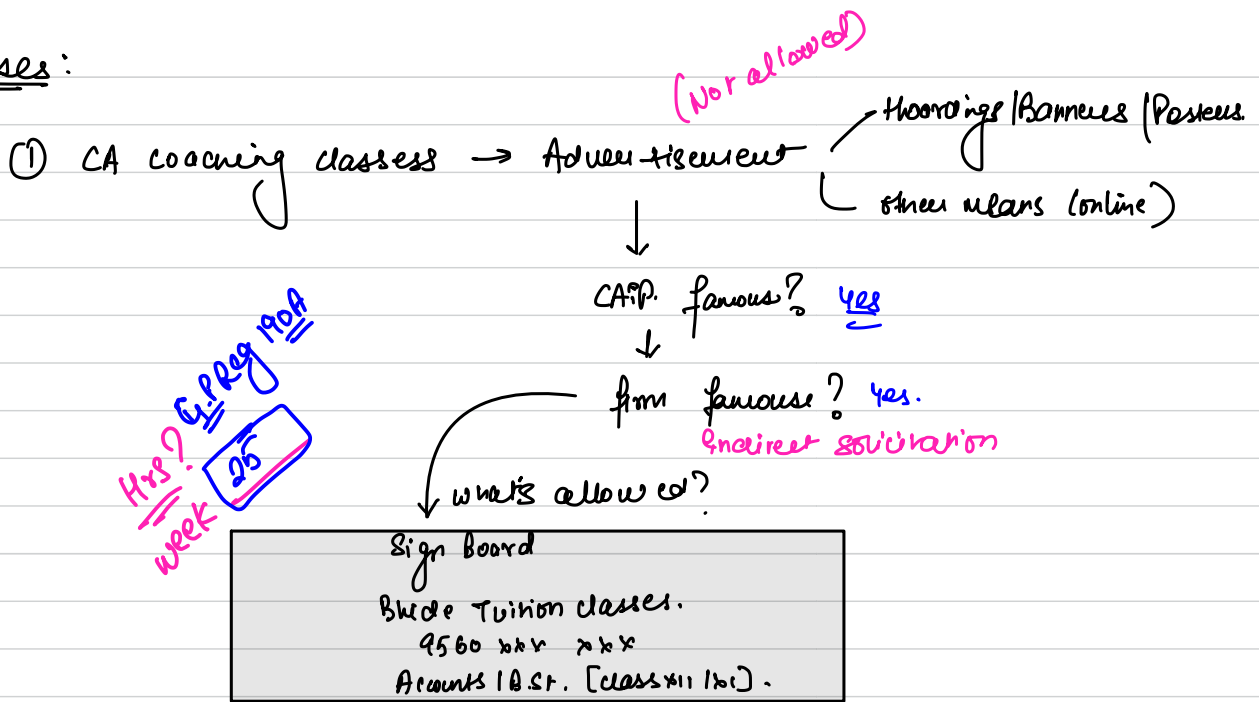
→ Can also give security deposit / EMD (Earnest money deposit) for commitment.

→ Also maintain cost sheet when responding.

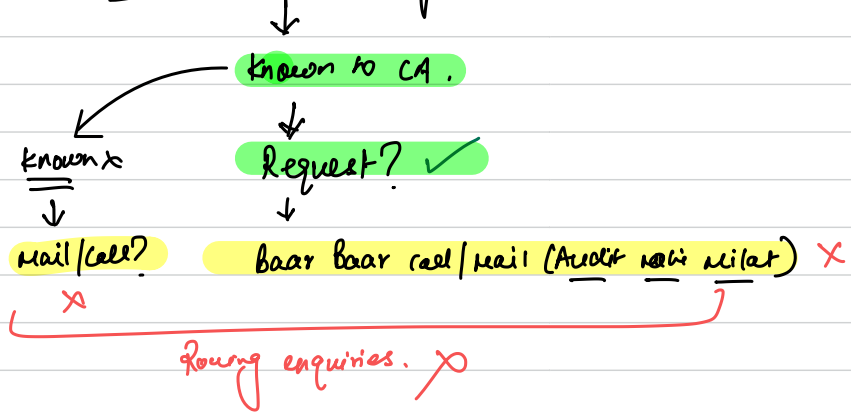
Why fees clause?

- Members should not adopt indirect methods to gain publicity & solicit client work.
- So that they can maintain independence & command respect of clients.

Spl. cases:

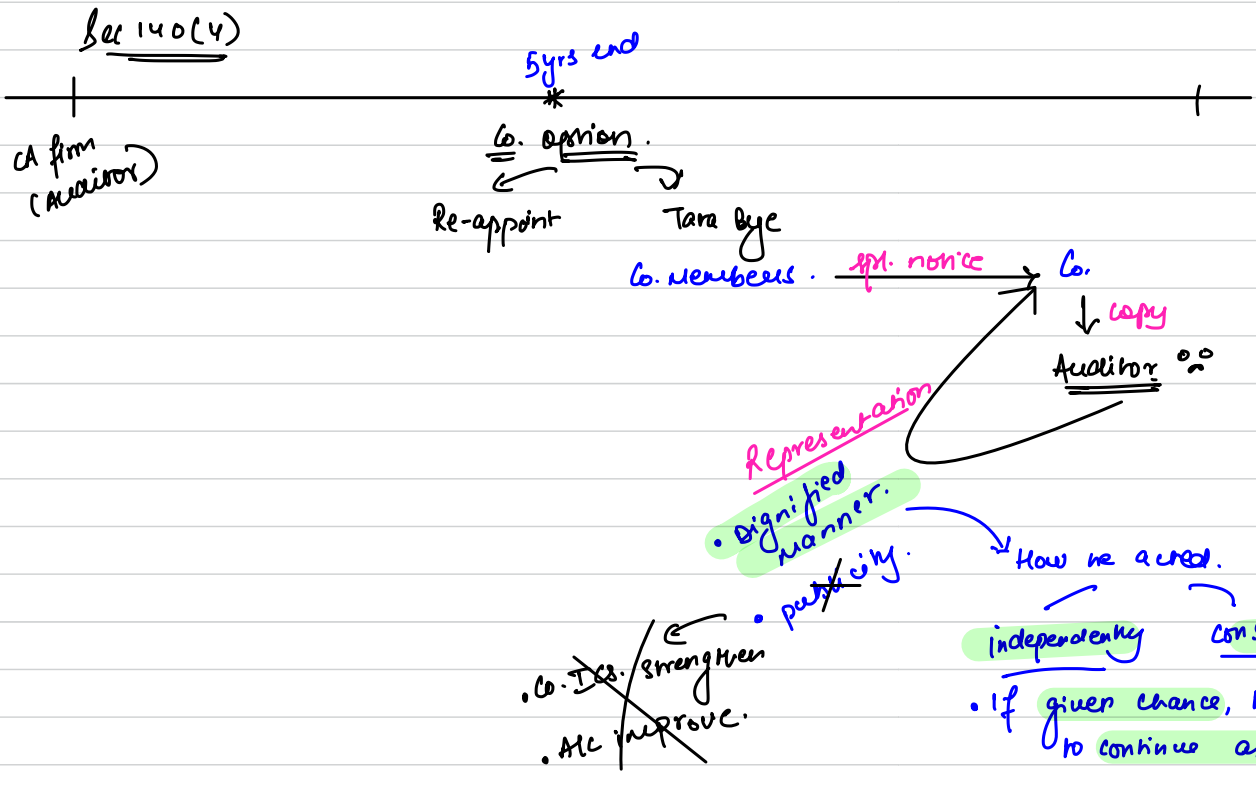


Govt Dept. → Panel (Database) for CAs.



(BAP)  
 Author Books, Articles, Publications ✓

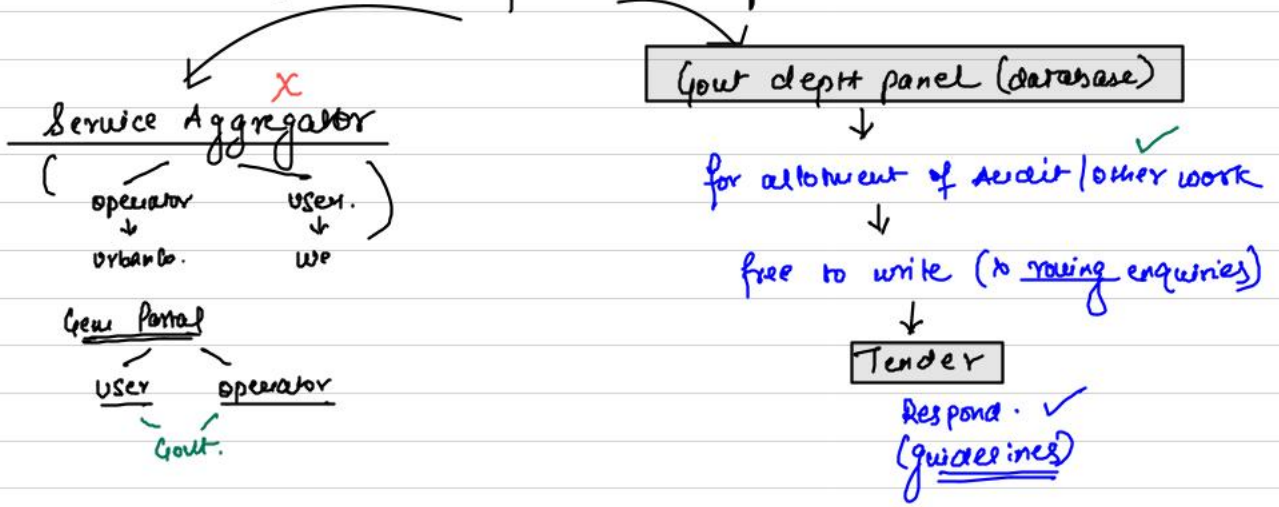
↓  
 CA Shubham Keswani ✓  
 firm name = ✓  
 prof. attainments | achievements. ✗



Q34

GEM → Govt E-Marketplace portal

(online market place to sell products/services to Govt)



Clause (7) → Advertiser his professional attainments / services  
 +  
 Sec 7 → use any designation other than Chartered Accountant on prof. docs.

- sign board,
- visiting card,
- letter head.

(Exception) unless it's

degree of university est. by law in India

eg LLB / ACMA / Dr.

or

Membership of

ICAI

or

other institution recognized by Cpt Council.

eg Pw solventy professional / regd. valuer.

CAIP → Co. Director? ✓ [Clause (11) / I / First].

↓

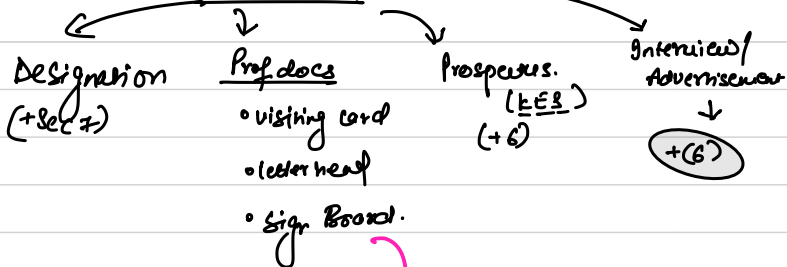
Co. Prospectus.

CA Shubham Keswani

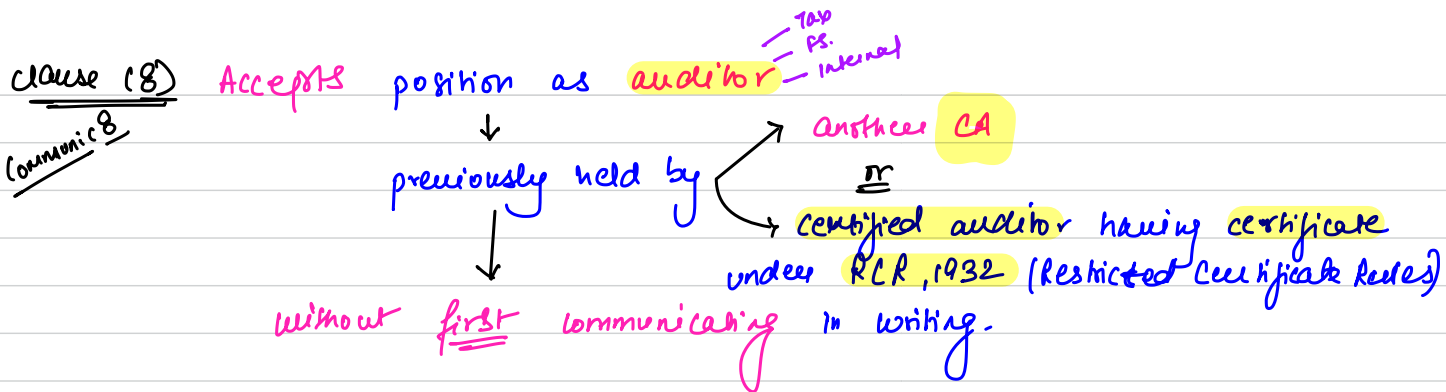
Knowledge, Experience, Specialisation

Co. galti? guilty → Indirect solicitation (6)  
 Advertisement (7)

Clause (7)

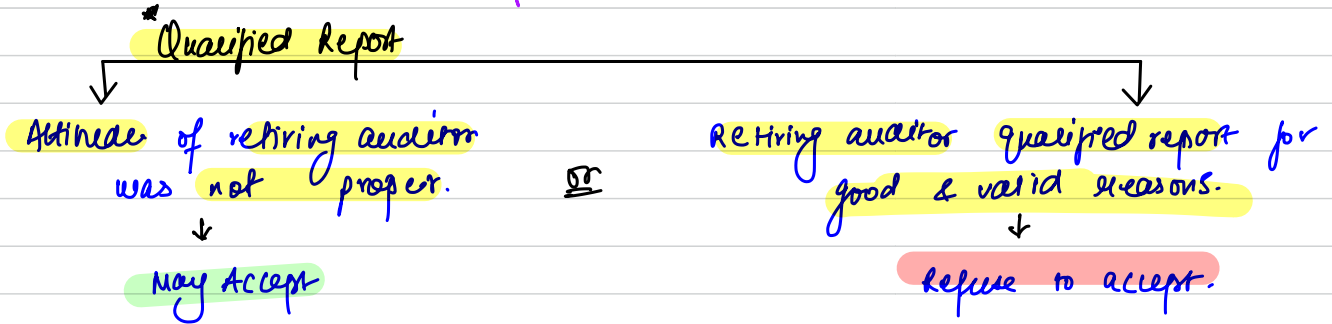
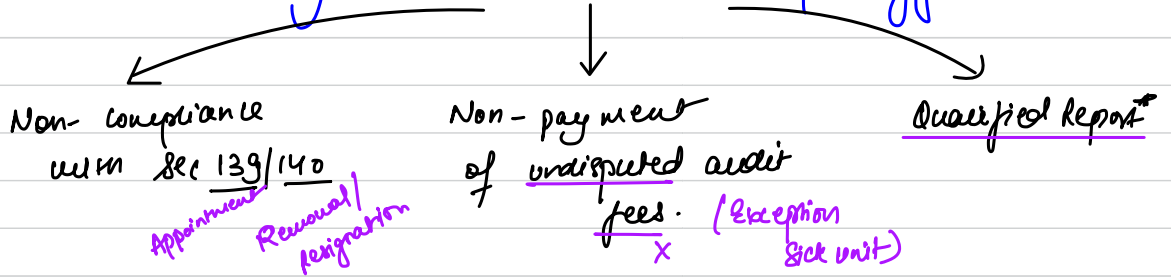


Imitation / G.C. { R, C, A } (6)



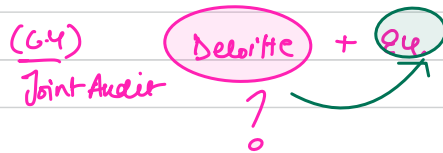
why? • Matter of professional courtesy & obligation.

• To know whether any circumstances to not accept engg.



⇒ There's no rule which would prevent auditor from accepting such audit. Consider full facts of case.

Rit Audit (P.4) Q4



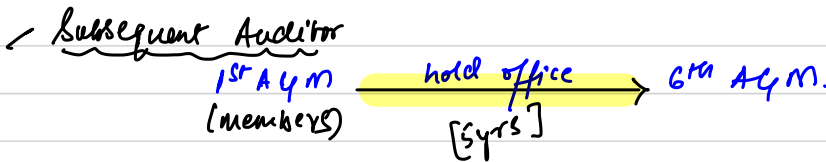
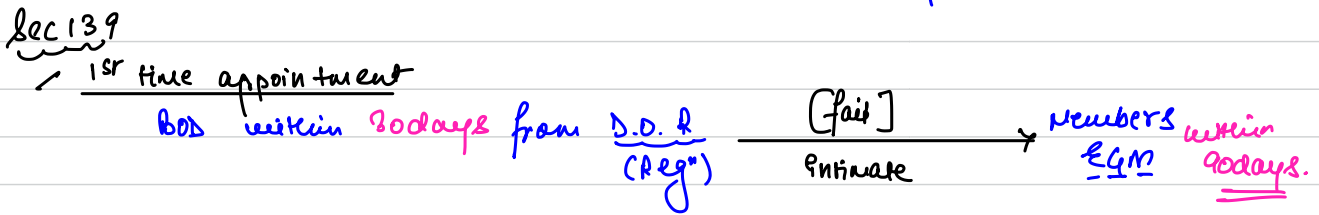
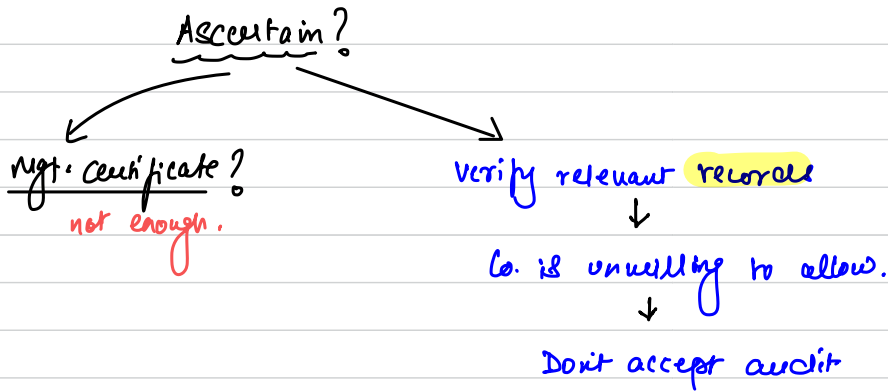
Internal Audit. (P.4) Mr. Guro (Engineer)

(C4.) CA Guro → Commentate? Healthy practice

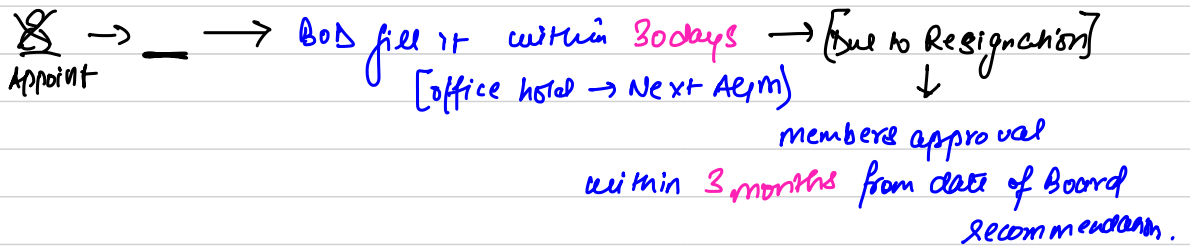
clause (9) Part I First Schedule.

- Accepts appointment as auditor of a Co.,
- without ascertaining whether requirements of Sec 139 & Sec 140 of Cos Act 2013 check have been complied with.

Why? To ensure appt. procedure for his appointment carried out, so that no shareholder / retiring auditor can challenge his appointment.

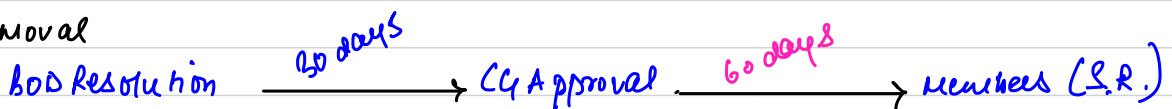


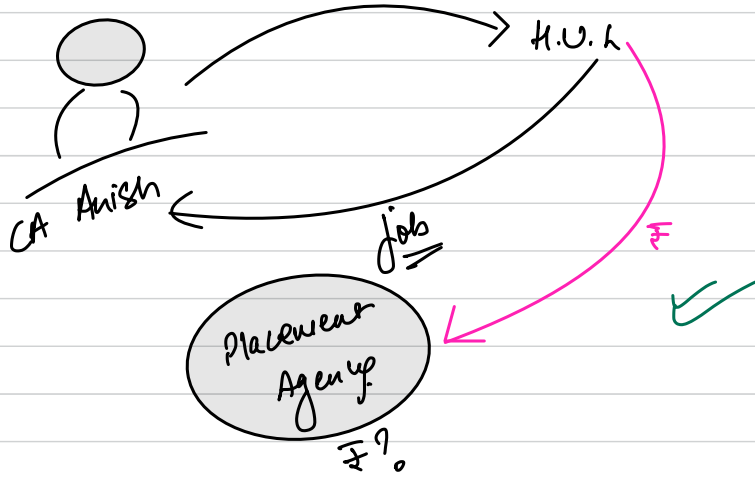
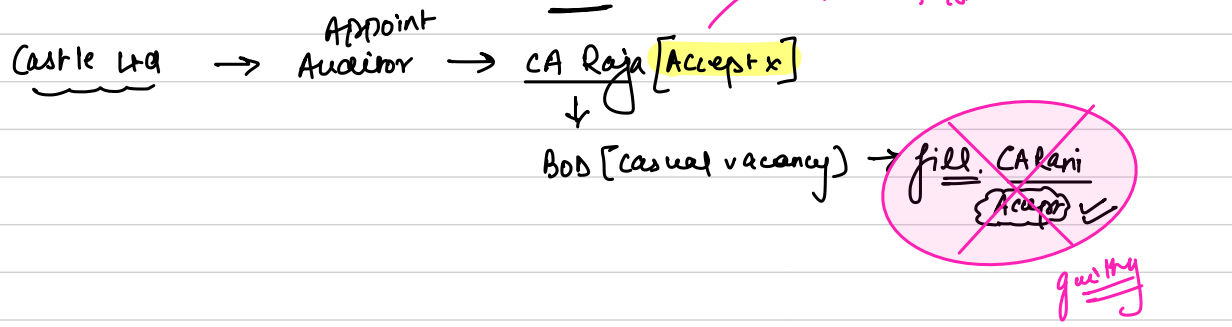
Casual vacancy [Sec 139(8)]



Sec 140

- Removal





Clause (2) Part II First Schedule

Accepts/agrees to accept any part of F.P.G (fees/profits/gains) of

- Broker/Agent
- CA./Customer
- Lawyer

(Employee) Co./firm/person

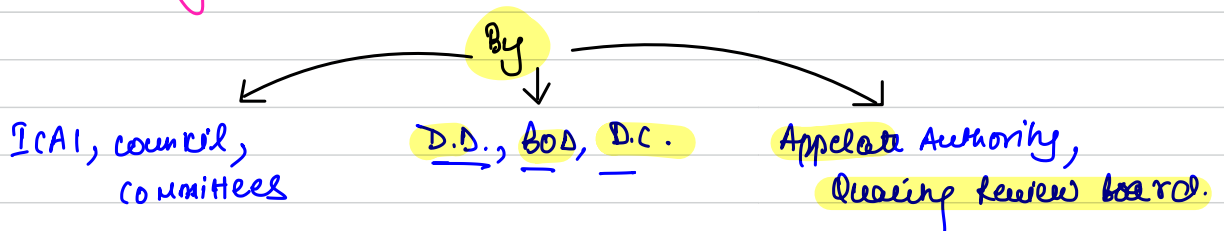
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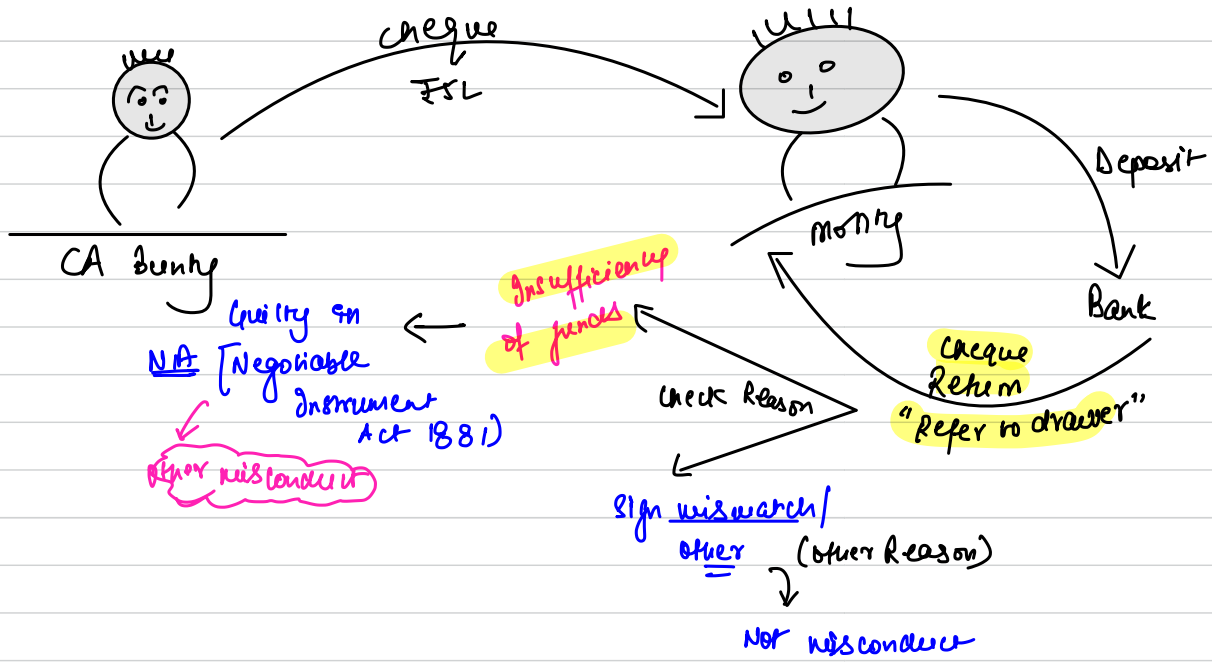
by way of commission/gratification.

Clause (2) Part III of First Schedule

Member of ICAI (whether in practice or not) shall be deemed to be guilty of P.M., if he,

- ~~doesn't supply~~ ~~enq.~~ called for ~~or~~ ~~doesn't comply~~ with requirement asked for





Pratip for cheque bouncing [Other misconduct cases]

- 1) clause (2) Part IV of first schedule
- 2) Part III of second schedule & Part IV of first schedule.
- 3) sec 21 of CA Act 1949.

+ "CA is expected . . . . . Action".

clause (1) Part I of Second Schedule

CAIP shall be deemed to be guilty of P.M, if he,

**discloses info.** acquired in course of prof. engg.

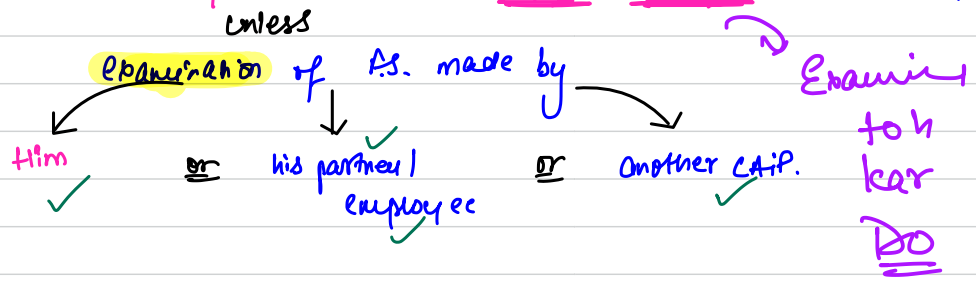
to **any person** other than his client

**without consent** of his client or **otherwise than required by law in force.**

Clause (2) Part I of Second Schedule of CA Act 1949

by Audit/Review

Certifies/submits in his/firm's name a report on EoFs [Examination of A.S.]



Three

clause (3) Part I of Second Schedule of CA Act 1949

Permits his / firm's name to be used in connection with an **EOE** (Estimate of Earnings)

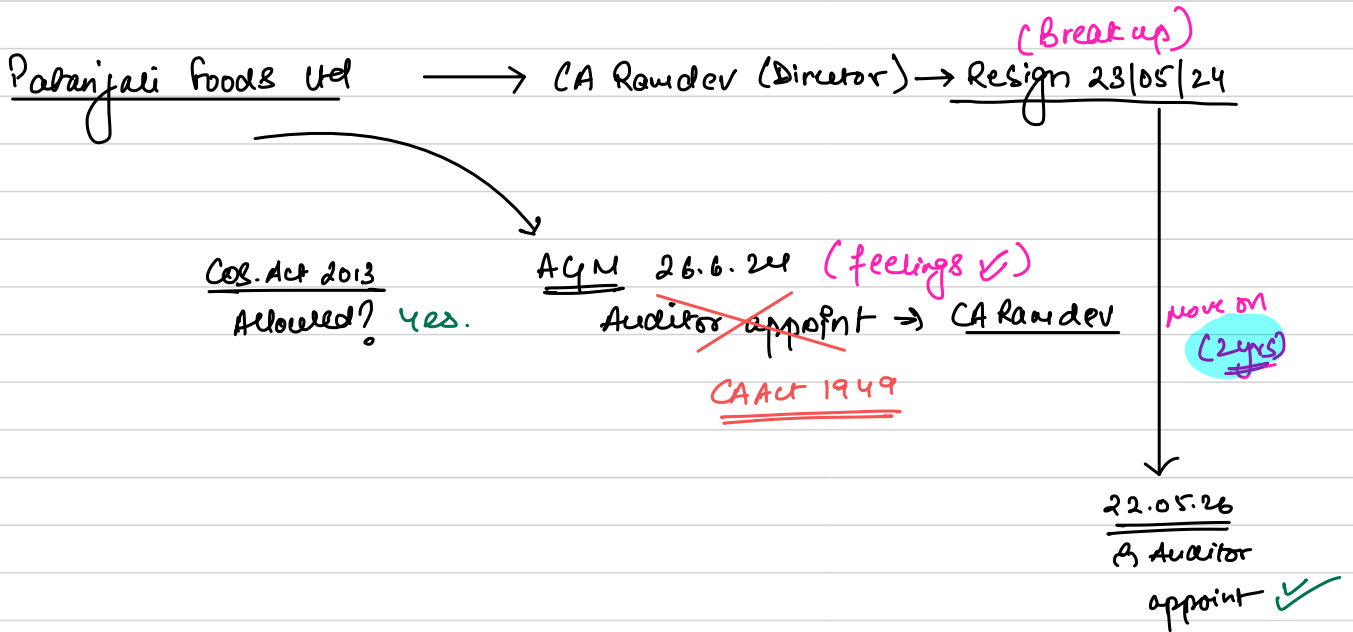
o contingent upon future trans<sup>n</sup>, in a manner

o that leads to a belief that he **vouches** for **accuracy of forecast**. <sup>Justification</sup>

Exception: Such report allowed, if it includes:

- o Basis of forecast,
- o Assumptions,
- o Source of info.

Statement that   
 "he doesn't vouch for accuracy of forecast".



clause (4) → Subst. part → ~~Audit~~ / certification → Evaluate costs. ✓

Stat. audit +

(vii) Many new areas of professional work have been added, e.g., Tax Audit, GST Audit, Concurrent Audit of Banks, Concurrent Audit of Borrowers of Financial institutions, Audit of non-corporate borrowers of Banks and Financial Institutions, Audit of Stock Exchange, Brokers, etc. The Council wishes to emphasize that the aforesaid requirement of Clause (4) are equally applicable while performing all types of attest functions by the members.

Internal Audit

### clause (b) Part I Second Schedule

Applicable to all Attest functions. Eg Tax audit, concurrent audit of banks, concurrent audit of borrowers of financial institutions, audit of stock exchange, brokers etc.

Also applicable for tax consultant/financial advisor.

Subs. inst

#### Sec 141(3) Disqualifications of Auditor

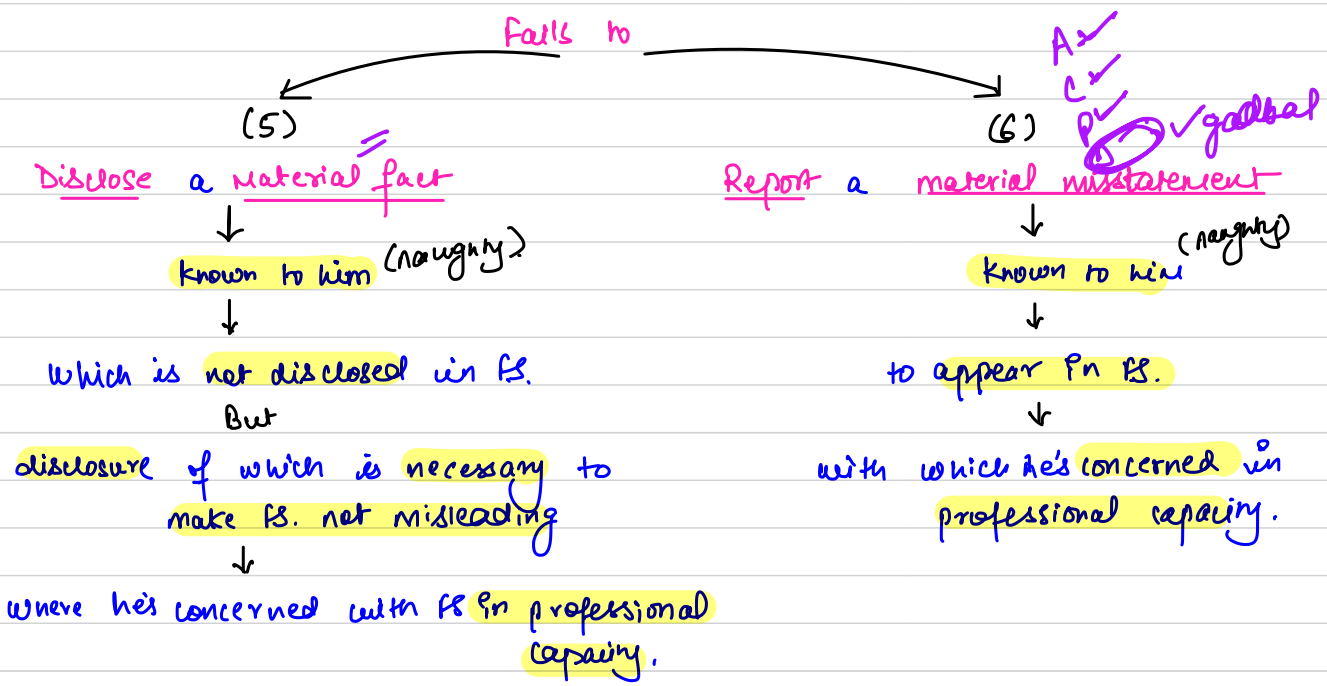
b. Officer or employee of Co. (Officer means director, manager or KMP)

c. partner/employee of officer/employee of Co. (CPO / PE / EO / EE)

d. Person/relative/ partner holding any security or interest in CASH (Co., associate, holding, subsy., subsy of such holding co.) (Relative can hold securities of face value upto ₹ 1 Lakh)

f. whose relative is director/KMP of Co.

CAIP shall be deemed to be guilty of P.M., if he,



Misstatement → A, C, P, D  
 Classification  
 Presentation  
 Disclosure

Q98

clause (7) doesn't exercise due diligence or is grossly negligent in conduct of professional duties. (carefully / thur)

It's a vital clause that gets attracted whenever necessary to judge, whether accountant has honestly & reasonably discharged his duties.

Expression of negligence covers wide field from frontiers of fraud to collateral minor negligence.

clause (8) fails to obtain sufficient info. necessary for expression of opinion. Its exceptions are sufficiently material to negate expression of opinion. (SAAE's, MV, P ✓)

# Keswani ke Tricks

How to identify → clause (7)

- ① CAIP → (Bewakoo fi)
- Stock audit → site visit & mgt data rely ✓
  - 'wrong certificate'
  - Report → Delayed → not issued on time
  - fail to check forged sign.
  - show digital signature certificate password with client.

② Issue → certificate of consumption of Raw material

↓ (7)

↓ (Inventory)  
AS2 / Tron AS2

(2)

③ certificate of circulation [Daily newspapers → sales]

↓ (7) & (8)

④ F.S. Audit Report

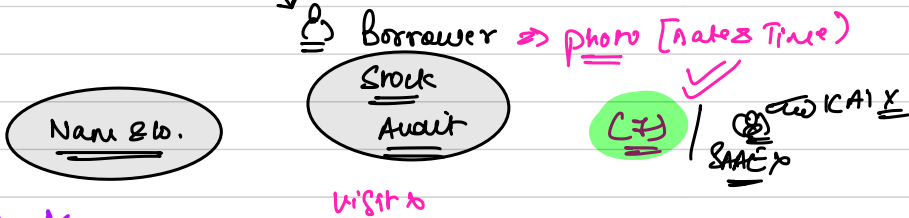
Investments ₹ 2500,000 later on → ₹ 10,000 (Actual value)

Clause (2) / (7)\* / (8)

Report on EoFs.

SAAC's

HEG Bank w.l. loan



Q100/101/102/105/107

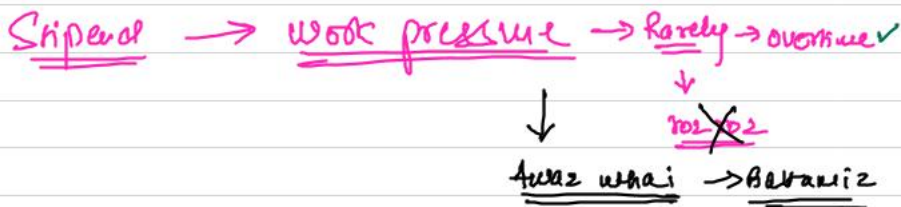
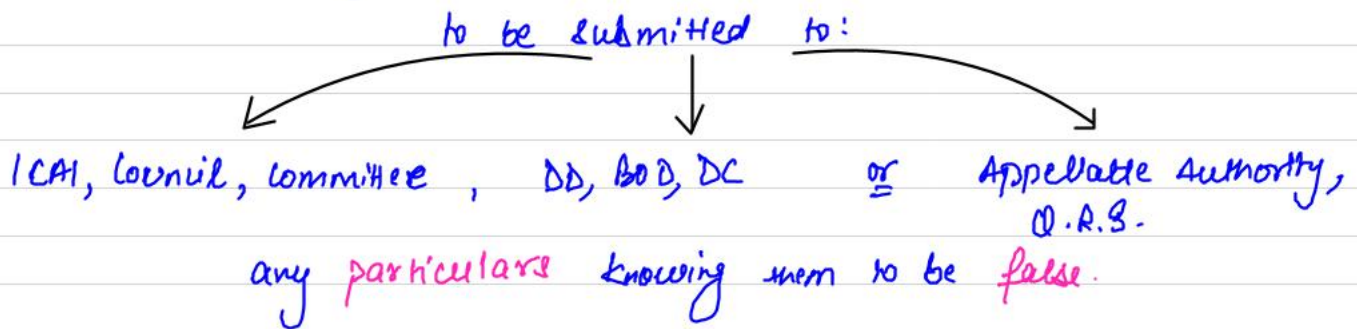
Clause (9) Part I of Second Schedule of CA Act 1949

Fails to invite attention to material <sup>(non compliance)</sup> departure from GAPA  
[Generally Accepted Procedures of Auditing]

GAPA: SAs / Guidelines / Quality Control Stds.

Clause (3) Part II of Second Schedule of CA Act 1949

Includes in any SIRF (Statement, Info, Return or Form)



Ch-VI Limit on Acceptance of Tax Audit Assignments. (FY)  
 (Sec 44AB / IT Act 1961)  
 60 Tax Audits per CA/P (full time)

→ Firm (10 partners) ⇒ 10 × 60 = 600 assignments

↓  
 Signing limit? No

Even 1 partner can sign all 600 assignments & remaining partner 0.

→ Co. / Branch<sub>1</sub> / Branch<sub>2</sub> ⇒ 1 assignment.

→ Maintain records for Tax Audits for each A.Y.

eg Mr A (CA/P) ⇒ Partner ABC & Co. ADE & Co.  
 ↓  
 Assignment Accept? 60

Ch-VIII Limit on Stat. audit Assignments  
 [Cos Act 2013]

Sec 141(3) → 20 limit  
 [Other Cos.]

Exceptions:

- O.P.C. ] unlimited
- Dormant Co. ]
- Small Co. ]
- Pvt. Ltd Co. (P.U.S.C < 100 Cr) ] 30

ICAI → 30 limit

Exceptions

- O.P.C.
- Dormant Co.

Ch-IX

Stat Audit ⇒ [Badi Badi] P.S.U. | Govt Co. | Listed

Public Co. + to move >= 50 Cr

(GST/IT)  
 → Tax Returns  
 → Co ROC forms.

↓  
 Stat audit fees ≥ other fees

- × other audit fees.
- × certification
- × representation before any authority.]

Q1.

Firm has 3 partners. They were offered following assignments.

- 40 audits of Public Cos. ✓
- 60 audits of small Cos & Pvt Ltd Cos. With PUSC < 100 Cr.
- 100 audits of dormant & OPCs.

Solution

1. Total limit for public companies = 20 × 3 ⇒ 60  
 Audit that can be accepted = 40

2. Total limit for small Cos. & Pvt Ltd Cos. = 30 × 3 ⇒ 90  
 Audits already accepted = 40  
 Audit that can be accepted = 50

3. Limit for dormant Co. = unlimited  
 Audit that can be accepted = unlimited ✓

Ch - X Eg Tax / FS Audit

Audit [Grant]  
(External)

[x Internal  
x concurrent]

→ Indebted to Entity  
(Limit?)

Co.

Sec 141(3)

- Direct Indebtedness > 5L  
[loan → Co.]
- Guarantee / Security > 1L

Other Entities  
(S.P. / LLP / firm)

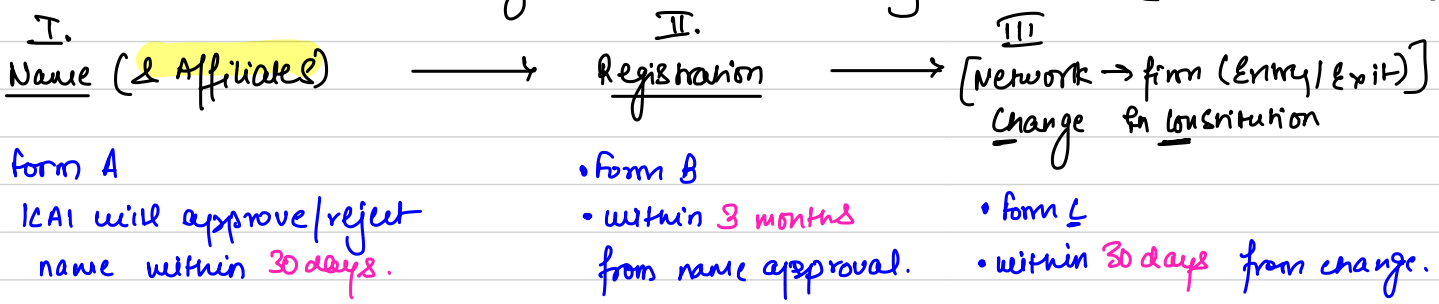
₹10,000

Eg → Letter S.R. Baribot & Co. LLP. ✓  
S.R. B.C. & Co. LLP ✓  
S.R. B.A & Co. LLP. ✓

SRB & Affiliates  
(Network)

KPMG (BSR & Affiliates).

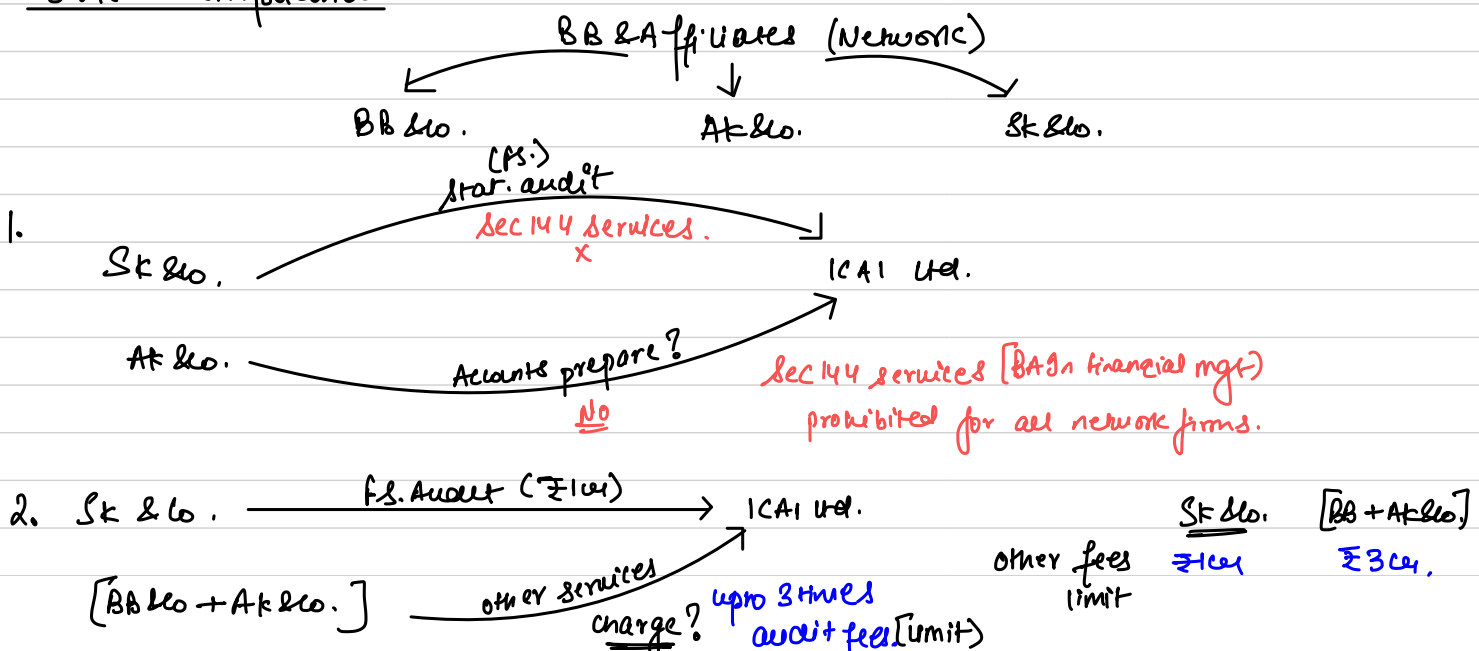
• Professional resources + Byelaws. + Firm → only 1 Network + (Common Partners) same netw.



IV. Working with Networks outside India

Declaration in Form D within 30 days from date of entering arrangement.

Ethical Compliances

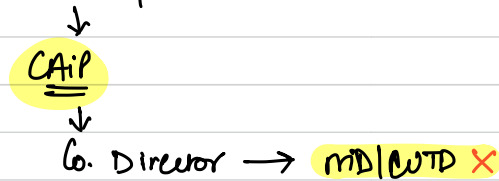


8. ITC Ltd (listed → Rotation of Auditor)

Audit firm + network firms.  
5 yrs (cooling period)

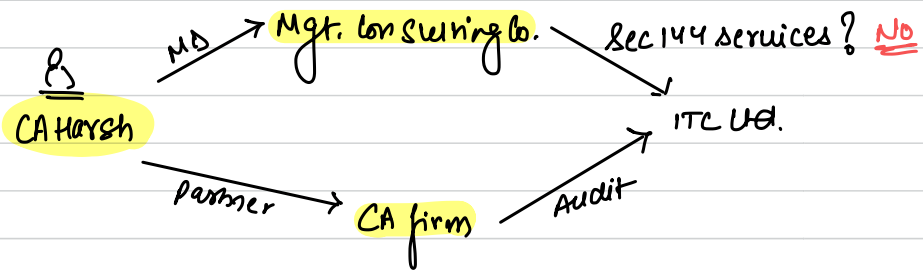


clause (11) Part I of first schedule

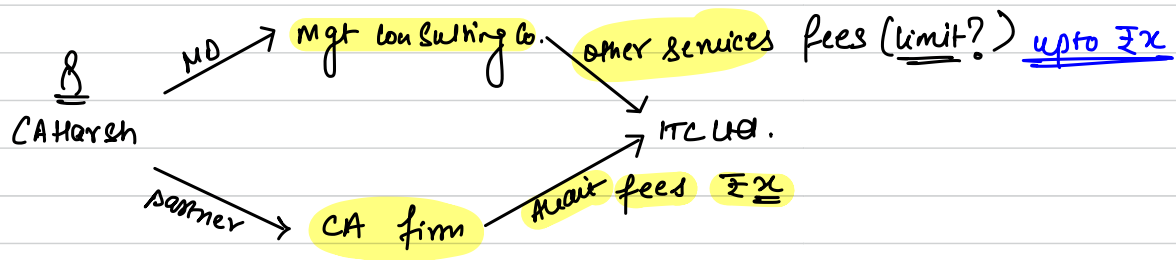


Exception  
Mgt. consulting Co. [MD/WTD] ✓  
Sec 2(2) ✓  
• Shares hold? ✓  
• C.O.P? ✓  
• Articles main ✓

(I)



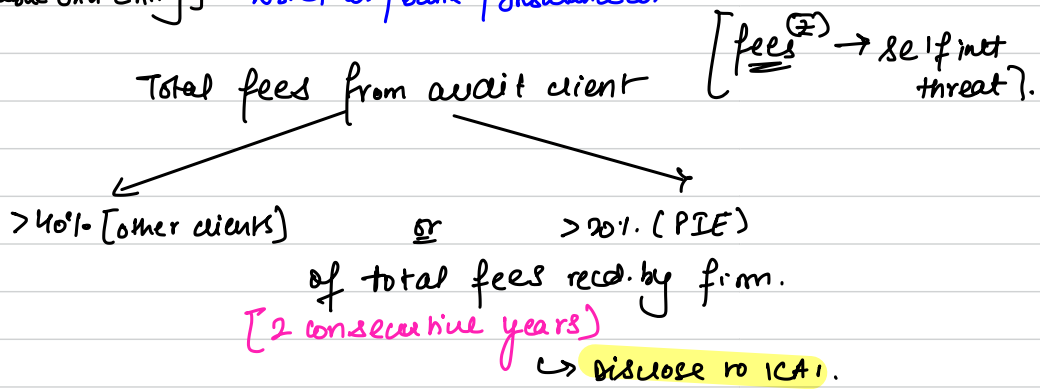
(II)



eg Audit fees (firm) = ₹10 lakhs.

[Mgt consulting Co. + Audit firm] other fees ≤ ₹10 lakhs. [other network firms ≤ 30L]

PIE [Public Intd Entity] : Listed Co. / Bank / Insurance Co.



N.A : • if total fees of firm upto ₹ 20L  
• Auditor of Govt Cos. / Public financial institutions / Govt Entity.

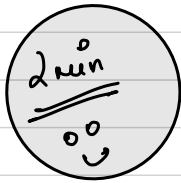
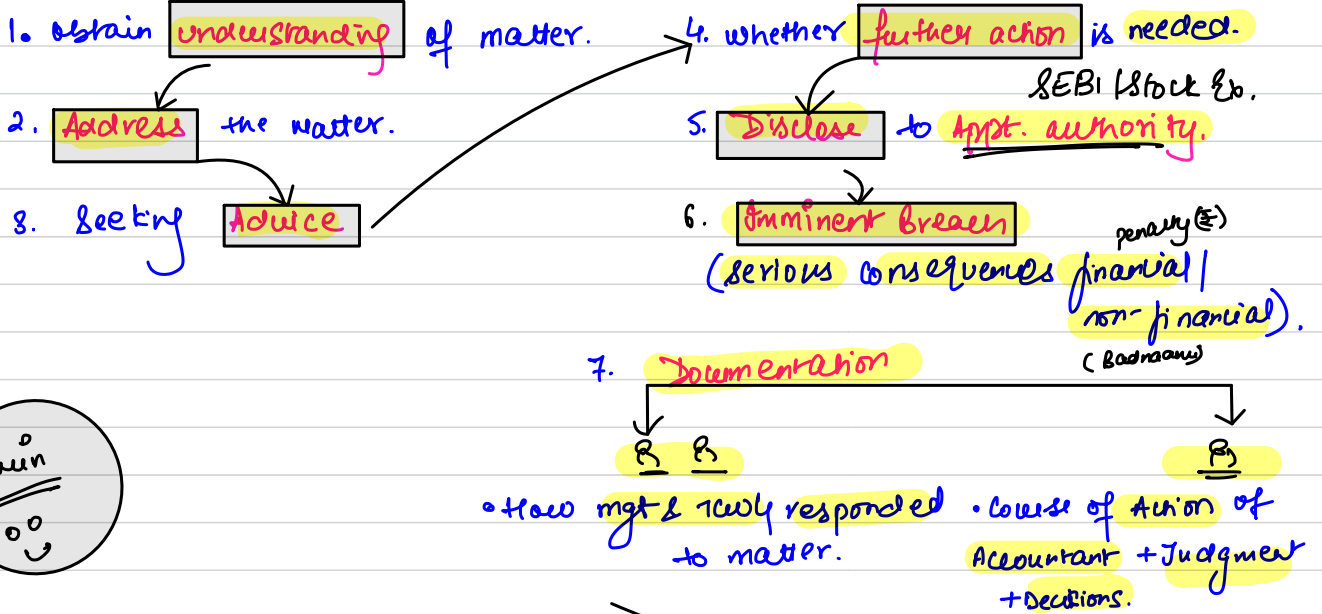
S No.	Name of audit client	PIE?	Total fees (Year 1)	% to total	Total fees (Year 2)	% to total	Disclosure required?
1	ITC (Listed Co.)	✓	1 Cr 20%	29.41%	1.5 Cr	58.57%	✓
2	Bandhan Bank	✓	30 L	8.82%	20 L	7.14%	✗
3	Cheeku Pvt Ltd	✗	2 Cr 40%	58.82%	1 Cr	35.71%	✗
4	Orange Pvt Ltd	✗	10 L	2.70%	10 L	3.57%	✗
Total Fees			3.4 Cr		2.6 Cr		

# NOCLAR

Q what the CA has to do?

§ EBI Act 1992

Responding to the NOCLAR [eg Adani Ltd. → Insider Trading]



Q SA 250 vs NOCLAR

SA 250	NOCLAR
1. Applicability: Audit of FS.	Professional Accountants (Practice/Service).
2. Type of laws: • Direct effect on FS. & other laws affect operations.	Similar to SA 250 + non-compliance that cause <b>substantial harm</b> (financial / non-financial terms)
3. Disclosure	In exceptional circumstances when CA becomes aware of <b>imminent breach</b> → discuss (mgt & text) → Disclose <b>app. auth.</b>
4. Breach order	Not defined
	Investors, crs., employees, & general public.