

Know Your Ethics



Q. Whether a Statutory Auditor of an entity can certify the provisional balance sheet or Financial Statement/unaudited balance sheet or Financial Statement of the audit client?

A. The Statutory Auditor of an entity cannot sign provisional balance sheet or Financial Statement/unaudited balance sheet or Financial Statement of the audit client. It is subject to the exception that if there is any statutory requirement to sign/certify the statement by statutory auditor on quarterly/half-yearly basis e.g., limited review or Quarterly review; same shall be permissible.

Q. Whether Incoming Auditor may accept Audit if undisputed Audit Fees of previous auditor is pending, but the previous Auditor has communicated his no objection inspite of pending Fees?

A. The incoming auditor should verify with the client that undisputed audit fees of previous auditor is pending. In case of pending undisputed audit fees, incoming auditor should not accept the audit even if previous auditor has given no objection on the same.

Q. Whether a member being the retainer of a client can also be the auditor of the said client or group entity of said client?

A. No. A member being retainer of a client cannot be the auditor of the said audit client or group entity of client.

Q. Is there a prohibition on continuing with audit Assignment if fees of the earlier years has not been paid in case of the continuing auditor?

A. There is no bar in signing the financial statements if Fees of the earlier years has not been paid in case of the continuing auditor.

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. It is generally expected that the firm will require payment of such fees before such audit report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

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.

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:

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- (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.

Q. In what circumstances is there bar on accepting Audit assignment if Fees of earlier Auditor has not been paid in case of change of Auditors?

- A.** In view of the Chapter VII (Appointment of an Auditor in case of non-payment of undisputed fees) of Council General Guidelines, 2008 mentioned under Volume-II of Code of Ethics, the Incoming auditor shall not accept the audit in case undisputed audit fees of previous auditor is pending. "Undisputed audit Fees" is reckoned as "provision for audit fee for carrying out the statutory audit under the Companies Act, 2013 or various other statutes, in accounts signed by both the auditee and the auditor along with other expenses, if any, incurred by the auditor in connection with the audit".

In respect of other dues i.e, other than undisputed audit fees, the incoming auditor should in appropriate circumstances use his influence in favour of his predecessor to have the dispute as regards the fees settled.

Q. What are safeguards available to address threats resulting from too low Fees?

- A.** The following safeguards mentioned in Volume-I of Code of Ethics may be applied to address a self-interest threat resulting from quoting too low fees:
- Adjusting the level of fees or the scope of the engagement.
 - Having an appropriate reviewer review the work that is performed properly despite of low fee. (Paragraph 330.3 A4)

Q. Whether the limit on loan from the Audit client mentioned under Chapter X of

Council General Guidelines, 2008 will apply to loans like Car loan, Home loan, etc.?

- A.** Yes. Indebtedness mentioned under Chapter X of Council General Guidelines, 2008 appearing in Volume-II of Code of Ethics include eventuality of being indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern. It shall also include loan taken by a member against Fixed Deposit, and include loans like Car loan, Home loan, etc.

Q. Whether statutory auditor or internal auditor can accept the assignment of verification of GST reconciliation statement, GST advisory services etc.

- A.** Yes. Verification of GST reconciliation statement and GST advisory services can be done by both Internal auditor and statutory auditor.

Q. Whether the internal auditor of a client can accept assignment of Accounting for the same client?

- A.** No. It is prohibitive to undertake the assignments of Internal Audit of a client and Tally entry of the Accounts, simultaneously being violative of the relevant provisions of the Code of Ethics.

Q. Whether a member can accept audit of a company where the partner of the member is an officer or employee of a company?

- A.** No. A member is not eligible for appointment as an auditor of a company if partner of such member is an officer or employee of the Company.

Q. Whether a member, who is the statutory auditor of a company, can let out property owned by his HUF to the said Company?

- A.** It would be advisable to avoid such transaction from an independence perspective.

Q. Whether a member in practice will be liable, if he fails to disclose a material fact known to him which is not disclosed in a

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financial statement, but disclosure of which is necessary to make the financial statement not misleading?

- A. Yes, as per Clause (5) of Part I of Second Schedule to the Chartered Accountants Act, 1949 a member in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading.

Q. Whether a member in practice will be liable if he fails to report a material mis-statement known to him to appear in a financial statement with which he is concerned in a professional capacity

- A. Yes, as per Clause (6) of Part I of Second Schedule to the Chartered Accountants Act, 1949 a member in practice shall be deemed to be guilty of professional misconduct, if he fails to report a material mis-statement known to him to appear in a financial statement with which he is concerned in a professional capacity.

Q. Whether a member in practice will be liable if he is grossly negligent in the conduct of his professional duties?

- A. Yes, as per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 a member in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

Q. Whether a member in practice will be liable in a case where he was alleged to have signed two balance sheets on two different dates for the same financial year, the first one with a clean report and the second one with a qualified report?

- A. Yes, the action of the member in signing two balance sheets on two different dates for the same financial year will constitute

professional misconduct under Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 which states that a member in practice shall be deemed to be guilty of professional misconduct, if he is grossly negligent in the conduct of his professional duties.

Q. Whether a member in practice will be liable if he fails to obtain sufficient information to warrant the expression of an opinion or his exceptions are sufficiently material to negate the expression of an opinion?

- A. Yes, as per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949 a member in practice shall be deemed to be guilty of professional misconduct, if he fails to obtain sufficient information to warrant the expression of an opinion or his exceptions are sufficiently material to negate the expression of an opinion.

FORM IV (SEE RULE 8)

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| 1. Place of Publication | : | New Delhi |
| 2. Periodicity of its publication | : | Monthly |
| 3. Printer's Name | : | Jai Kumar Batra |
| Nationality | : | Indian |
| Address | : | Journal Section
Institute of Chartered Accountants of India, Indraprastha Marg,
Post Box 7100, New Delhi-110002. |
| 4. Publisher's Name | : | Jai Kumar Batra |
| Nationality | : | Indian |
| Address | : | Journal Section
Institute of Chartered Accountants of India, Indraprastha Marg,
Post Box 7100, New Delhi-110002. |
| 5. Editor's Name | : | CA. (Dr.) Debashis Mitra |
| Nationality | : | Indian |
| Address | : | Journal Section
Institute of Chartered Accountants of India, Indraprastha Marg, Post Box 7100, New Delhi-110002. |
| 6. Name and addresses of individuals who own the newspaper and partners or shareholders holding more than one per cent of the total capital | : | Council of the Institute of Chartered Accountants of India, constituted under the Chartered Accountants Act, 1949 (Act XXXVIII of 1949). There is no share capital. |

I, Jai Kumar Batra hereby declare that the particulars given above are true to the best of my knowledge and belief.

Date:	sd/-
February 22, 2022	Jai Kumar Batra
	Signature of publisher