

PAPER – 3 : ADVANCED AUDITING

QUESTIONS

1. As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above.
2. Define audit strategy. What are the steps involved in designing an audit strategy?
3. (a) Briefly discuss the compliance procedures and their use in evaluation of internal controls.
(b) Write short explanatory note on - Flow chart technique for evaluation of internal control.
4. When can a company be said to have 'Not maintained' proper books of account? What is the role of the statutory auditor for the same?
5. Distinguish with suitable examples - Between a case where an auditor is obliged to state in his report to the members of a company that the accounts do not show a true and fair view, and a case where he states that he is unable to form an opinion as to whether or not the accounts give a true and fair view.
6. As Chartered Accountant you are required to give your reports on various financial statements under Companies Act, 1956 which are as under:
 - (i) Report to the shareholders under Section 227;
 - (ii) Report to be set out in prospectus under Section 60(3);
 - (iii) Report to be given to the Central Government as special auditor under Section 233 A;
 - (iv) Report to be given on voluntary winding up under Section 488(1).Explain the significance of each of these reports and your functional approach very briefly.
7. Sri Raghav is above 80 years old and wishes to sell his proprietary business of manufacture of specialty chemicals. C Ltd. wants to buy the business and appoints you to carry out a due diligence audit to decide whether it would be worthwhile to acquire the business.
What procedures you would adopt before you could render any advice to C Ltd.?
8. write short note on :
 - (i) Rolling Settlement
 - (ii) Hit or take orders
 - (iii) Sauda Book
 - (iv) Probable format of environmental statement
9. (a) State the special features of Co-operative Societies Audit.
(b) Explain the Constitution and functions of Audit Committee under Section 292A of the Companies Act, 1956.
10. (a) PQ & Co., a firm of chartered accountant having 2 partners P and Q , one in charge of head office and another in charge of Branch at a distance of 50 kms., puts a name board of the firm in both premises and also in their respective residences. Comment.
(b) (i) A chartered accountant has been offered a job in MiS ST & Company by an agent B. Chartered accountant agrees to pay to B, 10% of the emoluments he would receive during the period of his job. Is he guilty of professional misconduct?
(ii) A chartered accountant has been offered a job in MiS ST & Company by an agent. He promises to his wife that he would share 50% of his earning during the tenure of this job. Is he guilty of professional misconduct?

X. a chartered accountant in practice has been a member of the institute for 2 years. He starts using the letter FCA on his visiting card. Is he deemed to be guilty of professional misconduct?

The Institute of Chartered Accountants of India asks 'Y' a chartered accountant to confirm the date of leaving the services by the paid assistant. In spite of repeated reminders he failed to reply to the letters of the Institute. Comment.

11. How does an Auditor apply Statistical Sampling in auditing?
12. What are the Management Audit Questionnaires? Give a sample questionnaire for Audit of Inventory.
13. What are the special features of Co-operative audit to be borne in mind while conducting the audit?
14. How will you evaluate the internal control system in the area of credit card operations in a bank?
15. State the salient features of Investor's Education and Protection Fund.

SUGGESTED ANSWERS/HINTS

1. The Internal Audit Programme in connection with Plant and Machinery and Tools and dies may be on the following lines:
 - (i) Internal Control Aspects: The following may be incorporated in the audit programme to check the internal control aspects:
 - (a) Maintaining separate register for hired assets, leased asset and jointly owned assets.
 - (b) Maintaining register of fixed asset and reconciling to physical inspection of fixed asset and to nominal ledger.
 - (c) All movements of assets are accurately recorded.
 - (d) Authorisation be obtained for –
 - (i) a declaring a fixed asset scrapped.
 - (ii) selling a fixed asset.
 - (e) Check whether additions to fixed asset register are verified and checked by authorised person.
 - (f) Proper recording of all additions and disposal.
 - (g) Examining procedure for the purchase of new fixed assets, including written authority, work order, voucher and other relevant evidence.
 - (h) Regular review of adequate security arrangements.
 - (i) Periodic inspection of assets is done or not.
 - (j) Regular review of insurance cover requirements over fixed assets.
 - (ii) Assets Register: To review the registers and records of plant, machinery, etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged, etc.
 - (iii) Cost Report and Journal Register: To review the cost relating to each plant and machinery and to verify items which have been capitalised.
 - (iv) Code Register: To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of Code Register.
 - (v) Physical Verification: To see physical verification has been conducted at frequent intervals.
 - (vi) Movement Register: To verify (a) whether a Movement Register for movable equipments and (b) log books in case of vehicles, etc. are being maintained properly.
 - (vii) Assets Disposal Register: To review whether assets have been disposed off after proper

technical and financial advice and sales/disposal/retirement, etc. of these assets are governed by authorisation, sales memos or other appropriate documents.

- (viii) Spare Parts Register: To examine the maintenance of a separate register of tools, spare parts for each plant and machinery.
 - (ix) Review of Maintenance: To scrutinise the programme for an actual periodical servicing and overhauling of machines and to examine the extent of utilisation of maintenance department services.
 - (x) Review of Obsolescence: To scrutinise whether expert's opinion have been obtained from time to time to ensure purchase of technically most useful efficient and advanced machinery after a thorough study.
 - (xi) Review of R&D: To review R&D activity and ascertain the extent of its relevance to the operations of the organisation, maintenance of machinery efficiency and prevention of early obsolescence.
2. Audit strategy is concerned with designing optimised audit approaches, that seek to achieve the necessary audit assurance at the lowest cost within the constraints of the information available. Audit procedures should be relevant to the important assertions, and as cost effective as possible to perform. Audit strategy generally involves the following steps:
- (i) Obtaining knowledge of business.
 - (ii) Performing analytical procedures at initial stages.
 - (iii) Evaluating inherent risk.
 - (iv) Evaluating Internal Control system for strategy purpose.
 - (v) Formulating the strategy.

Let us deal with above stages step-wise:

- (i) Obtaining Knowledge of Business: AAS-20 on, "Knowledge of Business" states that in performing In performing an audit of financial statements, the auditor should have or obtain knowledge of the business sufficient to enable the auditor to identify and understand the events, transactions and practices that, in the auditor's judgment, may have a significant effect on the financial statements or on the examination or audit report. Knowledge of the business is a frame of reference within which the auditor exercises professional judgment. Understanding the business and using this information appropriately assists the auditor in:
 - ◆ Assessing risks and identifying problems.
 - ◆ Planning and performing the audit effectively and efficiently.
 - ◆ Evaluating audit evidence.
 - ◆ Providing better service to the client.

Finally, the auditor should ensure that the audit staff assigned to an audit engagement obtain sufficient knowledge of the business to enable them to carry out the audit work delegated to them. The auditor would also ensure that the audit staff understands the need to be alert for additional information and the need to share that information with the auditor and other audit staff.

To make effective use of knowledge about the business, the auditor should consider how it affects the financial statements taken as a whole and whether the assertions in the financial statements are consistent with the auditor's knowledge of the business.

- (ii) Performing Analytical Procedures: AAS-14 on, "Analytical Procedures" states that the auditor should apply analytical procedures at the planning and overall review stages of the audit. Analytical procedures may also be applied at other stages.

The purpose of analytical procedures at the planning stage is attention-directing; corroboration is not normally necessary at this stage beyond this stage beyond the

discussions that would usually take place with the client during the planning of the audit. The use of analytical procedures during the planning stage requires the extensive use of accounting and business knowledge and experience to assess the potential for material misstatement in the financial statements as a whole, because the key aspect of the task is to identify the relevant risk indicators and to interpret them properly. Furthermore, analytical techniques applied during the planning stage are not generally as precise as the analytical techniques at the substantive stage.

- (iii) Evaluating Inherent Risk: To assess inherent risk, the auditor would use professional judgement to evaluate numerous factors, having regard to his experience of the entity from previous audit engagements of the entity, any controls established by management to compensate for a high level of inherent risk, and his knowledge of any significant changes which might have taken place since his last assessment. Examples of are such factors are:

- ◆ At the Level of Financial Statements:
- ◆ Management's experience and knowledge and changes in management during the period, for example, the inexperience of management may affect the preparation of the financial statements of the entity.
- ◆ Unusual pressures on management, for example, circumstances that might predispose management to misstate the financial statements, such as the industry experiencing a large number of business failures or an entity that lacks sufficient capital to continue operations.
- ◆ The nature of the entity's business, for example, the potential for technological obsolescence of its products and services, the complexity of its capital structure, the significance of related parties and the number of locations and geographical spread of its production facilities.
- ◆ Factors affecting the industry in which the entity operates, for example, economic and competitive conditions as indicated by financial trends and ratios, and changes in technology, consumer demand and accounting practices common to the industry.

At the level of Account Balance and Class of Transactions:

- ◆ Quality of the accounting system.
 - ◆ Financial statements are likely to be susceptible to misstatement, for example, accounts which required adjustment in the prior period or which involve a high degree of estimation.
 - ◆ The complexity of underlying transactions and other events which might require using the work of an expert.
 - ◆ The degree of judgement involved in determining account balances.
 - ◆ Susceptibility of assets to loss or misappropriation, for example, assets which are highly desirable and movable such as cash.
 - ◆ The completion of unusual and complex transactions, particularly at or near period end.
 - ◆ Transactions not subjected to ordinary processing.
- (iv) Evaluating Internal Control: The auditors' assessment of the control environment is crucial to the decision on whether to make an extended assessment of controls. This is because a good control environment is conducive to the maintenance of a reliable system of accounting and control procedures. For strategy purposes the auditor should obtain a sufficient understanding of the control environment. The auditor needs an understanding of the accounting systems, regardless of whether the audit strategy will involve an extended assessment of internal accounting controls. This should be done by:
- (a) documenting the extent to which the system is computerised; and
 - (b) preparing or updating overview flowcharts to record the files and transactions relating

to significant systems-derived account balances.

If there are significant computer systems, the auditor should obtain an understanding of the IT controls so decide whether to make an extended assessment of monitoring controls. Whether it is necessary to carry out any preliminary work for strategy purposes to ascertain whether IT controls are likely to be satisfactory will depend on the auditor's previous knowledge about IT controls. For an existing audit, the objective will normally be to carry out the minimum work necessary to update this previous understanding. If more information is needed, or if the engagement is new or substantially changed, the auditor should carry out an overview assessment of IT controls.

(v) Formulating the Strategy: The auditor should develop the strategy by:

- (a) considering the results of gathering or updating information about the client; and
- (b) making preliminary judgements about materiality, inherent risk and control effectiveness. These will include identification of the system(s) the auditor proposes to subject to an extended assessment of controls.

The initial assessment of the quality and complexity of the client's systems will affect the amount of the information the auditor needs to gather. Sometimes, on a new engagement, the appropriate strategy may be obvious from a limited amount of investigative work. In other cases, the necessary information gathering will be extensive. The auditor should consider the following matters:

- (a) For many existing clients, the majority of the information the auditor needs will already exist in the prior year's strategy and in the audit programme. Accordingly, it will often be possible to restrict the work to updating existing knowledge, considering whether there are any significant new or changed risks and confirming that there are no new or substantially changed significant systems.
- (b) If the auditor has had substantial contact with the client in the current period it may be possible to determine the strategy without gathering additional information.

3. (a) Compliance Procedures and Evaluation of Internal Controls: AAS-1 on "Basic Principles Governing an Audit" states that, "the auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions therefrom on which to base his opinion on the financial information. According to it, compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect. Obtaining audit evidence from compliance procedures is intended to reasonably assure the auditor in respect of the following assertions :

Existence	-	that the internal control exists.
Effectiveness	-	that the internal control is operating effectively.
Continuity	-	that the internal control has so operated throughout the period of intended reliance.

The auditor formulating his opinion on financial information needs reasonable assurance that transactions are properly authorised and recorded in the accounting records and that the transactions have not been omitted. Internal controls, even if fairly simple, may contribute to the reasonable assurance the auditor seeks. The auditors' objective in studying and evaluating internal controls is to establish the reliance he can place thereon in determining the nature, timing and extent of his substantive auditing procedures.

Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in place and are also effective. Compliance procedures enable the auditor to determine the existence, effectiveness and continuous operation of the internal control system. These procedures include tests requiring inspection of documents supporting transactions to gain evidence that controls have operated properly. For example, the auditor may see that the documents have been

properly authorised. The auditor may also make enquiries about the observation of controls, for example, determining who actually performs each function not merely who is supposed to perform it. Compliance procedures are conducted by the auditor to gain evidence that those internal controls on which he intends to rely operates generally as identified by him and they function effectively throughout the period of intended reliance. The concept of effective operation recognises that some deviations from prescribed controls may have occurred.

Based on the results of his compliance procedures, the auditor evaluates whether the internal controls are adequate for his purpose. If based on the results of the compliance procedures, the auditor concludes that it is not appropriate to rely on a particular internal control to the degree previously contemplated, he should ascertain whether there is another control which would satisfy his purpose and on which he might rely (after applying appropriate compliance procedures). Alternatively, he may modify the nature, timing or the extent of his substantive audit procedures.

- (b) Flow-chart technique for evaluation of internal control: A flow-chart is a graphic presentation of the flow of transactions and documents in an organisation. Evaluation of the internal controls forms an important part of the auditing process as it enables the auditor to know the weaknesses and strengths of the accounting system and consequently the general reliability of the accounting records and data emanating therefrom. Also, it helps the auditor to decide upon the relative audit thrust needed in the different accounting areas. A properly drawn up flow chart can provide a neat visual picture of the whole activities of the section or department involving flow of documents and activities. More specifically it can show:
- (i) at what point a document is raised internally or received from external sources;
 - (ii) the number of copies in which a document is raised or received;
 - (iii) the intermediate stages set sequentially through which the document and the activity pass;
 - (iv) distribution of the documents to various sections, departments or operations;
 - (v) checking authorisation and matching at relevant stages;
 - (vi) filing of the documents; and
 - (vii) final disposal status.

Different methods are available with the auditor to evaluate the internal controls but the flow-charting method is, perhaps, the most scientific and advantageous as compared to other methods. It provides the most concise but comprehensive way of recording the operating controls along with the flow of transactions and documents. In the flow-chart, a total and complete visual picture and control system is available and as such its reception in the human mind is direct. In drawing a flow-chart, organised and concentrated application of mind is essential to reflect the control system in a rational manner. Even in a large and complex organisation, the control system could be depicted by few sheets of neatly drawn flow-charts. However, in drawing the flow chart, the auditor has to take few precautions, e.g., flow-charts should not be lengthy and cumbersome, should be neat, should portray the flow completely with final disposal of papers and there should be proper use of symbols and lines. The auditor will be able to visually correlate the functions and the related controls and assess the adequacy and effectiveness thereof much quickly than a possibly in any other method.

4. Section 209(1) of the Companies Act, 1956 requires that every company shall keep proper books of account with respect to the following items:
- (i) all sums of money received and expended by the company and the matters in respect of which the receipts and expenditure take place;
 - (ii) all sales and purchases of goods by the company;
 - (iii) the assets and liabilities of the company; and

- (iv) in the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilisation of material or labour or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particulars in the books of account.

Proper books of account shall not be deemed to be kept if such books of accounts are not kept on accrual basis of accounting and according to double entry system of accounting.

In case proper books of account are not kept, the auditor is required to specifically refer to violation of the Companies Act, 1956 in the auditor's report and shall also state that in his opinion proper books of account as required by law have not been kept by the company so far as appears from his examination of those books and, he has to further give either qualified opinion or disclaimer of opinion.

Further, the books also have to be maintained under accrual system. If the statutory auditor finds the books not maintained are not maintained accordingly, he will have to modify his report.

5. Adverse Report and Disclaimer of Opinion: AAS 1 " Basic Principles Governing an Audit" states that the audit report should contain a clear written expression of opinion on the financial information. In order to express such an opinion, the auditor should review and assess the conclusions drawn from the audit evidence obtained by him. This review and assessment involves forming an overall conclusion as to whether:
 - (a) the financial information has been prepared using acceptable accounting policies, which have been consistently applied;
 - (b) the financial information complies with relevant regulations and statutory requirements;
 - (c) the view presented by the financial information as a whole is consistent with the auditor's knowledge of business environment; and
 - (d) there is adequate disclosure of all matters relevant to the proper presentation of financial information.

The opinion expressed by an auditor may be unqualified, adverse, qualified or a disclaimer of opinion depending upon the degree of satisfaction of the auditor about the overall truth and fairness of the financial statements.

An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements. Such an opinion is issued when the effect of disagreement is so material and pervasive to financial statements that the auditor concludes that a qualification of his report is not adequate to disclose the misleading or incomplete picture of the financial statements. This conclusion can be reached by the auditor in an extreme case where there had been flagrant violation of the accounting principles or evidence is not available for material transactions or within the knowledge of the auditor there exists material concealment or misstatement about financial affairs. He must have strong and convincing evidence in favour of his conclusion. It should be appreciated that this opinion is also an overall opinion and owes direct relationship to the portrayal of the financial position in the accounting statements. If one or two illegal transactions of not much significance have taken place and they have been fairly presented and disclosed in the accounting statements, it can not be held that the accounting statements are not true and fair. They are true and fair subject to the illegality already disclosed. The audit report stating that the accounts do not show a true and fair view is indeed an extreme and rare case. In case an auditor has to report to that effect, there must exist reservations on the accounts affecting materially the accounts taken as a whole. The reservation should not be such that it only partially affects the accounts. Also, mere reservation in the mind of the auditor is not enough, he must have convincing and definite evidence to state that the accounts are so materially irregular that they do not show a true and fair view.

AAS 28, "The Auditor's Report on Financial Statements" requires that a disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and

pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the financial statements. A limitation may be imposed by circumstances, for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories. It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, the auditor would attempt to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion. This would also be the case when internal control is so weak as to prevent the auditor from putting any reliance on the accounts. Therefore, to be fair and just, he should state that he is unable to form an opinion as to whether or not accounts give a true and fair view, for example, when the auditor was not able to examine a substantial part of the books of accounts because they were in police custody. In both the situations, the auditor should give also his reasons for the report he makes. Instances in which the auditor faces limitations on the scope of his work, it is appropriate for him to state that he has not been able to form an opinion.

6. Auditor's report on the Companies Act, 1956 (the Act):

- (i) Report to Shareholders U/s 227: Section 227 of the Act lays down powers and duties of the auditor. Sub-sections (2), (3), (4) and (4A) of Section 227 deal with reporting requirements. Sub-section (2) states that the auditor of a company shall make a report to the members on the accounts examined by him and on every balance sheet and profit and loss account which are laid before company in general meeting during the tenure of his office. The significance of the report lies in the fact that it requires that the report shall state whether in his opinion and to the best of his information and according to the explanations given to him the said accounts give the information required by the Act in the manner so required and give a true and fair view.

The functional approach by the auditor for making a report u/s 227 of the Act, requires him to perform compliance and substantive audit procedures to verify the information contained in the financial statements. Having regard to the materiality of the items involved, the auditor also determines whether the relevant information is properly disclosed in the financial statements.

- (ii) Report to be set out in the prospectus u/s 60(3): Section 60(3) of the Act provides that a prospectus should be accompanied inter alia by the consent in writing of the person named therein as the auditor of the company or intended company, to act in that capacity. Part II of Schedule II to the Act prescribes the reports to be set out in a prospectus. The report contains particulars about profit and losses of the company for five preceding year, assets and liabilities, rates of dividend, etc. The significance of the report lies in the fact that a prospectus is issued by a company when it seeks to raise funds from the public and gives detailed information about the company to enable prospective investors to take a well-informed decision. The functional approach on the part of auditor involves obtaining information from the management, particularly, in respect of estimation of current and future profits. He has to also ensure that all adjustments have been made properly.
- (iii) Special Audit Report U/s 233A: Under section 233A of the Act, the Central Government has a power to order a special audit of the accounts of a company for a specified period. An order to conduct special audit of the accounts of a company may be made where the Central Government is of the opinion that:
 - (a) the affairs of the company are not being managed in accordance with sound business principles or prudent commercial practices; or
 - (b) the company is being managed in a manner likely to cause serious injury or damage to the interests of the trade, industry or business to which it pertains; or
 - (c) the financial position of the company is such as to endanger its solvency.

The main objective of such an audit is to provide a critical review of the company's working

and state of affairs to the government. Special audit should be distinguished from 'investigation' into the affairs of a company under section 235 of the Act. The special auditor has the same powers and duties which a company auditor has under section 227 of the Act, with the difference, however, the instead of making his report to the members of the company, the special auditor makes the report to the central government. The special audit report should, as far as possible, include all the information required to be included in an audit report under section 227 of the Act. However, the central government may direct that the special audit report shall also include a statement on any other matter referred to the special auditor by the government.

- (iv) Report on the accounts prepared on voluntarily winding up u/s 488 (1): Section 488(1) of the Act requires that where it is proposed to wind up a company voluntarily, its directors, or in case the company has more than two directors, the majority of the directors, may, at a meeting of the Board, make a declaration verified by an affidavit, to the effect that they have made a full inquiry into the affairs of the company, and that, having done so, they have formed the opinion that the company has no debts, or that it will be able to pay its debts in full within such period not exceeding three years from the commencement of the winding up as may be specified in the declaration. Such declaration has to be accompanied by a copy of the report of the auditors of the company (prepared, as far as circumstances admit, in accordance with the provisions of this Act) on the profit and loss account of the company for the period commencing from the date up to which the last such account was prepared and ending with the latest practicable date immediately before the making of the declaration and the balance sheet of the company made out as on the last mentioned date and also embodies a statement of the company's assets and liabilities as at the date.
7. A due diligence audit on behalf of C Ltd. with a view to acquiring the business shall involve following steps:
- (1) **Studying Business History:** The principal objective of financial due diligence, is usually to look behind the initial information provided by the entity and to assess the benefits and costs of the proposed acquisition by inquiring into all relevant aspects of the past, present and future of the business to be acquired. The accountants should begin the financial due diligence review by looking into the history of the entity and the background of the promoters. The details of how the company was set up and who were the original promoters has to be gone into, before verification of financial data in detail. An eye into the history of the target may reveal its turning points, survival strategies adopted by the entity from time to time, the market share enjoyed by the entity and changes therein, product life cycle and adequacy of resources. It could also help the accountant in determining whether, in the past, any regulatory requirements have had an impact on the business of the entity. Broadly, the accountant should make relevant enquiries about the history of business – products, markets, suppliers, expenses, operations.
 - (2) **Studying the Overall Picture:** It is necessary to see whether the business is engaged in manufacture of one or two important lines of products; whether raw material is available without difficulty; whether products are marketable and have a ready market; whether there is scope for expansion of the market; whether full capacity is being utilised or whether there is scope for utilisation of idle capacity – all those factors are non-financial in nature but an enquiry into them is essential for formulation of a decision to buy or not.
 - (3) **Economic environment:** The study of the impact of economic forces is important for determining factors that have been responsible for the rise or fall in the sales and profits of the business. At times, political or economic factors also may affect the fortunes of a business; for example, labour disturbances, changes in government policies in the matter of levy of excise and custom duties, imports, etc. It is therefore necessary that the impact of all these factors should be studied and their effect on the business judged on a consideration of the profits in the past.
 - (4) **Examining Profit and Loss Account:** The Profit and Loss Account for the last few years should be considered – exceptional or non-recurring expenses, incomes should be

eliminated to know normal profit and trends in profits. Also to be seen is the trend in sales whether the same is on the increase or decrease after allowing for unusual factors influencing sales. It should be seen whether the business is regular in payment of taxes; both Central and State Taxes; whether taxes are in arrears; whether what arrangement are to be made to clear off the arrears; if taxes and duties are in arrear whether the vendor will undertake to pay the taxes upto the point of sale.

- (5) Examining Net-worth: The net worth of the business should be ascertained. If the accounts are regularly audited, reliance can be placed on the books; for valuation of tangible assets, the assistance of known expert in the field may be sought; enquiries should be made whether there are unrecorded liabilities of the business; similarly about unrecorded assets. On the basis of net worth of the business, the purchase consideration may be agreed upon.

In addition to the above steps, the following further points have to be seen:

- (i) Reason for sale of business and the effect on turnover and profits due to the exist of the present proprietor.
 - (ii) The length of the lease under which business has been operating.
 - (iii) The unexpired period of patents if any held by the vendors.
 - (iv) The age of managerial staff and prospects of their continuing in service in the new environment; the effect of trained managerial staff learning the organisation in production/sales/administrative and the financial liability to pay terminal benefits/compensation, etc.
 - (v) If bulk sales are to a few limited customers, the profitability should be discounted greatly, because any substantial withdrawal of customers might cause business crashes.
 - (vi) A company with a sound financial structure can better withstand the stresses and strains of business. A low debt-equity ratio would indicate an ability to grow through debt financing without raising equity.
 - (vii) The cash generated from operations; the need for redeployment of resources and funds needed for repayment of loans become major factors in determining growth potential.
 - (viii) The valuation of goodwill if any should be on reasonable basis having regards to all factors mentioned above.
8. (i) Rolling Settlement: A rolling settlement is one in which a transaction outstanding at the end of the day have to be settled within X number of business days from the transaction date. If a transaction is entered on Monday on T+2 rolling settlement, it will be settled on Wednesday when pay in or payout take place. SEBI has mandated most of the scrips to be settled exclusively on rolling settlement basis. Value at Risk (VaR) based margin approach has been adopted for transactions done in Compulsory Rolling Settlement. In the VaR system of margin, historical volatilities of scrips and overall market volatility is considered to arrive at a VaR margin percentage for a scrip. If a member fails to deliver the shares sold in rolling settlement, the exchange conducts an auction session to meet the shortfall credited by non-delivery of shares. If the auction price / close out price is less than the sale price, the difference is credited to Investor's Education and Protection Fund. If the sale price is less than the auction price / close out price, the difference is payable by the defaulters.
- (ii) Hit or Take Orders: Hit or take orders occur in screen-based trading in stock exchange. This is a variation of market orders. It allows for faster order execution without cluttering up the limit order book. This method converts the key strokes or mouse clicks of the broker into a limit order at the touch line price for a particular scrip, without his having to place a limit order. Further all unexecuted orders of this type are automatically killed and are therefore not stored in the order book.

A broker interested in a particular scrip would ask the system to display the touch line of that scrip. He would then operate certain predefined keys or mouse clicks which would be

different for buy and sell orders. The system would ask the broker to identify the client (may be skipped) and to quantify the order. The system, would then convert his buy or sell order for the quantity specified into a limit order and attach the touchline offer price for a buy order or a touchline bid price for a sell order. This order will be matched against jobber quotes and the order book for the quantity can be executed. The unexecuted quantity, if any, will be killed and removed from the system.

- (iii) **Sauda Book:** All members of a stock exchange are required to maintain a 'Sauda Book', which contains details of all deals transacted by them on a day to day basis. This is a basic record, which each member is required to maintain regularly on day-to-day basis. It contains the details regarding the name of the code of the client on whose behalf the deals have been done, rate and quantity of bought or sold. These details are maintained datewise. This register contains all the transactions, which may be of any of the kind mentioned below :
 - ◆ member's own business on the Exchange,
 - ◆ member's business on the Exchange on behalf of clients,
 - ◆ member's business with the clients on principal-to-principal basis,
 - ◆ member's business with the members of other Stock Exchanges,
 - ◆ member's business on behalf of his clients with the members of other Stock Exchanges, and
 - ◆ spot transactions, etc.
 - (iv) **Probable format of "Environmental Statement":** The following are the main aspects which may be covered in the probable format of Environmental Statement :
 - a. Name and address of the owner/occupier of the industry, operation or process.
 - b. Date of last environmental audit report submitted.
 - c. Consumption of water and other raw materials during current and previous year.
 - d. Pollution generated in air and water alongwith the output and the types of pollutants and the deviation from standards.
 - e. Generation of hazardous waste in current year and previous year from processes.
 - f. Quantity of solid waste generated during current year and previous year and from recycling or reutilisation of waste, etc.
 - g. Disposal practice for different type of waste.
 - h. Practice in operation for conservation of natural resources.
 - i. Additional investment proposal for environmental protection including abatement of pollution.
9. (a) **Special features of Co-operative Societies Audit:** The special features of co-operative societies audit, to be borne in mind while conducting the audit are as follows:
- i. **Examination of overdue debts:** Overdue debts for a period from six months to five years and more than five years will have to be classified and shall have to be reported by an auditor. Overdue debts have far reaching consequences on the working of a credit society. It affects its working capital position. A further analysis of these overdue debts from the viewpoint of chances of recovery will have to be made, and they will have to be classified as good or bad. The auditor will have to ascertain whether proper provisions for doubtful debts is made and whether the same is satisfactory. The percentage of overdue debts to the working, capital and loans advanced will have to be compared with last year, so as to see whether the trend is increasing or decreasing whether due and proper actions for recovery are taken, the position regarding cases in co-operative courts, District Courts etc. and the results thereof.
 - ii. **Overdue Interest:** Overdue interest should be excluded from interest outstanding and

accrued due while calculating profit. Overdue interest is interest accrued or accruing in accounts, the amount of which the principal is overdue.

- iii. **Certification of Bad Debts:** A peculiar feature regarding the writing off of the bad debts as per Maharashtra State Co-operative Rules, 1961, is very interesting to note. As per Rule No. 49, bad debts can be written off only when they are certified as bad by the auditor. Bad debts and irrecoverable losses before being written off against Bad Debts Funds, Reserve Fund etc. should be certified as bad debts or irrecoverable losses by the auditor where the law so requires. Where no such requirement exists, the managing committee of the society must authorise the write-off.
- iv. **Valuation of Assets and Liabilities:** Regarding valuation of assets there are no specific provisions or instructions under the Act and Rules and as such due regard shall be had to the general principles of accounting and auditing conventions and standards adopted. The auditor will have to ascertain existence, ownership and valuation of assets. Fixed assets should be valued at cost less adequate provision for depreciation. The incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalised. If the difference in the original cost of acquisition and the present market price is of far reaching significance, a note regarding the present market value may be appended; so as to have a proper disclosure in the light of present inflatory conditions. The current assets be valued at cost or market price, whichever is lower. Regarding the liabilities, the auditor should see that all the known liabilities are brought into the account, and the contingent liabilities are stated by way of a note.
- v. **Adherence to Co-operative Principles:** The auditor will have to ascertain in general, how far the objects, for which the co-operative organisation is set up, have been achieved in the course of its working. While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds. Middlemen commissions are, as far as possible, avoided and the purchases are made by the committee members directly from the wholesalers. The principles of propriety audit should be followed for the purpose.
- vi. **Observations of the Provisions of the Act and Rules:** An auditor of a co-operative society is required to point out the infringement with the provisions of Co-operative Societies Act and Rules and bye-laws. The financial implications of such infringements should be properly assessed by the auditor and they should be reported. Some of the State Acts contain restrictions on payment of dividends, which should be noted by the auditor.
- vii. **Verification of Members' Register and examination of their pass books:** Examination of entries in members, pass books regarding the loan given and its repayments, and confirmation of loan balances in person is very much important in a co-operative organisation to assure that the entries in the books of accounts are free from manipulation.
- viii. **Special report to the Registrar:** During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society, he may report these special matters to the Registrar, drawing his specific attention such irregularities. The Registrar on receipt of such a special report may take necessary action against the society. In the following cases, for instance a special report may become necessary:
 - (i) Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.
 - (ii) Detection of fraud relating to expenses, purchases, property and stores of the society.
 - (iii) Specific examples of mis-management including decisions of management against co-operative principles.

- (iv) In the case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of management, and deliberate negligence about the recovery thereof. Cases of reckless advancing, where the management is negligent about taking adequate security and proper safeguards for judging the credit worthiness of the party.
- ix. Audit classification of society: After a judgement of an overall performance of the society, the auditor has to award a class to the society. This judgement is to be based on the criteria specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. The auditor should be very careful, while making a decision about the class of society.
- (b) Constitution and Functions of Audit Committee: Section 292A of the Companies Act, 1956 requires that every public company having not less than Rs. 5 crores of paid up capital shall constitute a committee of Board known as Audit Committee. It shall consist of not less than three directors and such number of other Directors as the Board may determine of which two-third shall be directors other than the Managing Director and whole time director. They shall elect one such member amongst them as Chairman. The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at meetings of the Audit Committee but shall not have the right to vote.

Every audit committee constituted as above shall act in accordance with the terms of reference specified in writing by a Board. The function of the audit committee as specified in the Companies Act, 1956 are as under:

- (i) The audit committee should have discussions with the auditors periodically about the internal control systems, the scope of audit, the audit observations and review the periodical financial statements before submission to the board and also ensure compliance with the internal control systems.
- (ii) It shall have the authority to investigate any matter in relation to the items specified in this section or reference to it by the Board and shall have access to the information contained in the records of the company and external professional advice, if necessary.
- (iii) Its recommendations on all financial matters including audit report shall be binding on the board.
- (iv) The auditors, the internal auditor, if any, and the director-in-charge of finance shall attend and participate at meetings of the Audit Committee but shall not have the right to vote.
- (v) To advise and check the compliance of the organisation for policy and regulation aspects.

While performing the aforesaid key functions, the energy auditor is required to carry out the following activities:

- (i) To analyse the historical energy consumption and cost data.
 - (ii) To conduct preliminary energy audit with the objectives to identify:
 - (a) major energy consuming equipment and process;
 - (b) obvious inefficiencies and energy wastes; and
 - (c) priority areas for further detailed investigation.
 - (iii) To conduct detailed technical and economic analysis of energy efficiency measures involving large efficiency measures involving large capital investment or long payback periods.
10. (a) The council of the Institute has decided that with regard to the use of the name-board, there will be no bar to the putting up of a name-board in the place of residence of a member with the designation of chartered accountant, provided, it is a name-plate or board of an

individual member and not of the firm. In the given case partners of X Y & Co., put up a name board of the firm in both offices and also in their respective residences.

Thus the chartered accountants are guilty of misconduct. Distance given in the question is not relevant for deciding.

- (b) As per clause (1) of Part II of The First Schedule to the Chartered Accountants Act, 1949, A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him.

A member of the Institute in service is deemed to be guilty of professional misconduct, if he is an employee of any company, firm or person and during that course whatever emoluments he receives, if he either pays or allows to pay or agree to pay any part or share thereof whether directly or indirectly. However, this clause does not restrict such sharing or commitments among relatives, dependents, friends etc., if there is no relationship in procuring or retaining the job and payment is not a consideration for job procurement or retainership.

The clear verdict of this clause is that job must be procured and retained with own professional capabilities and not by any financial deal impairing professional dignity.

(i) In this case chartered accountant is guilty of professional misconduct.

(ii) In this case chartered accountant is not guilty of professional misconduct.

- (c) As per Clause (1) of PART III of the First Schedule to 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 not being a fellow of the Institute, acts as a fellow of the Institute.

Every member of the Institute whether in practice or not, shall be deemed to be guilty of professional misconduct, if he is associate member (ACA) of the Institute, acts (including such disclosure of exhibition by way of letter, visiting card etc.) as fellow member (FCA) of the institute. Therefore X will be deemed to be guilty of professional misconduct.

- (d) As per Clause (2) of PART III of the First Schedule to 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 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. Thus Y is guilty of professional misconduct under this clause.

11. Application of Statistical Sampling in Auditing: Statistical Sampling in auditing stands for the technique of forming an opinion about a group of items on the basis of an examination of a few of the items. On the basis of audit carried out, an auditor is required to give a report containing his opinion about the truth and fairness of the accounting statements. Thus, audit sampling involves the application of audit procedures to less than 100% of the items within an account balance or class of transactions to enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population. Broadly, the following steps are carried out by the auditor in applying statistical sampling.

In designing an audit sample – the auditor has to consider the specific audit objectives, the population and the sample size.

- (i) Audit Objectives: The auditor should consider the specific audit objectives to be achieved to enable him to determine the audit procedure or combinations of procedures which is likely to achieve these objectives. In addition, when audit sampling is appropriate, consideration of the nature of the audit evidence sought and possible error conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes an error and

what population to use for sampling. For example, when performing series of control over an entity's purchasing procedures, the auditor will be concerned with matters such as whether an invoice was clerically checked and properly approved. On the other hand, when performing substantive procedures on invoices processed during the period, the auditor will be concerned with matters such as the proper reflection of the monetary amounts of such invoices in the financial statements.

- (ii) **Population:** The population is the entire set of data from which the auditor selects the sample in order to reach a conclusion. The auditor determines that the population from which he draws the sample is appropriate for the specific audit objective. The total number of items potentially subject to scrutiny within a defined area, must be sufficiently large. For example, if the auditor's objective were to test for overstatement of accounts receivable, the population could be defined as the accounts receivable listing.
- (iii) **Confidence Level & Precision:** In the mathematical probability, the error rate in the sample will not differ from the error rate in the population by more than a stated amount. Confidence level is normally expressed in percentage (90%, 95%, 99%). Precision involves description of the attributes of a given population. But how precise do we require this percentage to be? The bigger our sample, clearly the more precise we can be, but we can never be completely precise for the same reasons as we can never be 100 percent confident. The degree of precision required will depend on the materiality of the items in question. For example, if Rs. 3,000 of errors in a sales ledger population of Rs. 100,000 would be considered to be just not material, then 3 percent would be our precision limits.

Finally, the auditor selects sample items in such a way that the sample can be expected to be representative of the population. This requires that all items in the population have an opportunity of being selected. Selection methods include random selection, systematic selection, haphazard selection, etc. When determining the sample size, the auditor should consider sampling risk, the tolerable error, and the expected error. 'Sampling risk' arises from the possibility that the auditor's conclusion, based on a sample, may be different from the conclusion that would be reached if the entire population were subjected to the same audit procedure. Tolerable error is the maximum error in the population that the auditor would be willing to accept and still conclude that the result from the sample has achieved the audit objective. If the auditor expects error to be present in the population, a larger sample than when no error is expected ordinarily needs to be examined to conclude that the actual error in the population is not greater than the planned tolerable error. Smaller sample sizes are justified when the population, the auditor would consider such matters as error levels identified in previous audits, changes in the entity's procedures, and evidence available from other procedures.

The final and last selection in the application of statistical sampling to auditing is the evaluation of sample results by the auditor. The evaluation of sample results involves analyses of any errors detected in the sample, projection of the errors found in the sample to the population, and reassessing the sampling risk.

12. **Management Audit Questionnaire:** A management audit questionnaire is an important tool for conducting the management audit. It is through these questionnaires that the auditors make an inquiry into important facts by measuring current performance. Such questionnaires aim at a comprehensive and constructive examination of an organisation's management and its assigned tasks. Overall it is concerned with the appraisal of management actions in accomplishing the organisation's objectives. Its primary objective is to highlight weaknesses and deficiencies of the organisation. It includes a review of how well or badly the management functions of planning, organising, directing and controlling are being performed. In addition it evaluates how effective the decision-making process is accomplishing the stated organisation objectives. Within this framework, the questionnaire provides a means for evaluating an organisation's ongoing operations by examining its major functional areas. There are three possible answers to the management audit questions: "Yes", "No" and "N.A.", (not applicable). A "Yes" answer indicates that the specific area, function, or aspect under study is functioning in an acceptable manner; no

written explanation is needed in that case. On the other hand, a “no” answer indicates unacceptable performance and should be explained in writing. Questionnaire comments on negative answers not only provide documentation for future reference, but, more important, provide background information for undertaking remedial action. Those questions that are not applicable and should be ignored in the audit are checked in the “N.A.” column. The management audit questionnaire does not give answers, but simply asks questions. If all questions are answered with a ‘yes’, operations are proceeding as desired. On the other hand, if there are one or more ‘no’ answers, difficulties are being experienced and must be explained in writing. If the question does not apply, the N.A. (not applicable) column is checked. Thus, management audit questionnaire for this part of the audit not only serves as a management tool to analyse the current situation; more importantly, it enables the management auditors to synthesise those elements that are causing organisational difficulties and deficiencies.

Audit of Inventory

A management audit questionnaire for audit of inventory is given below:

- ◆ Long Range Plans
- ◆ Is inventory management sufficiently qualified to meet long-range company objectives?
- ◆ Are long-range inventory management plans coordinated with: production, purchasing and finance?
- ◆ Is inventory properly and efficiently stored to reduce obsolescence, pilferage, etc.
- ◆ Is there an adequate system to plan inventory in the long run at optimum levels?
- ◆ Are inventory plans and procedures audited periodically?

Short or Medium Range Plans

- ◆ Is inventory management sufficiently qualified to meet short or medium range objectives?
- ◆ Are inventories under control as to type and amount?
- ◆ Are short-range inventory management plans an integral part of production and purchasing?
- ◆ Is there an adequate inventory system to plan current inventory at optimum levels detect theft and compare physical to perpetual inventories?
- ◆ Are lead times figured into inventory levels for purchasing and manufacturing?
- ◆ Are reorder levels set?
- ◆ Do the plans include ‘make’ or ‘buy’ decisions to lower costs?

Organisation Structure

- ◆ Is the inventory department under directions of a suitable person?
- ◆ Are the inventories and their in-plant movements organised and reported by their basic types, i.e., raw materials, work in progress and finished goods?
- ◆ Is there an effective system of physical inventory to disclose any irregularities or losses?
- ◆ Is the ABC analysis followed for the inventory control?

Communication

- ◆ Is there an information system utilised that employs efficient management, methods and techniques to control inventories and to prepare periodic inventory reports that are of great value to management?
- ◆ Is there an effective communication system designed to assist in, keeping the inventory turnover rate high?
- ◆ Is there good managerial control over movement of work-in-process materials so that this

inventory is kept at a minimum?

Control

- ◆ Are inventory management control reports, methods and techniques integrated with production and purchasing?
 - ◆ Are inventories properly stored to provide a minimum of:
 - a. obsolescence?
 - b. deterioration?
 - c. pilferage?
 - ◆ Is inventory control integrated with:
 - a. economic order quantities?
 - b. re-order points?
 - ◆ Have steps been taken to balance the cost generated by too small an inventory against the cost of carrying excessive inventories to determine an optimum inventory turnover?
 - ◆ Are inventory items physically counted to make sure that perpetual inventory records are accurate?
 - ◆ Is inventory controlled through the use of the ABC concept (A = high-value items, B = medium-value items, C = low-value items)?
 - ◆ Is there an effective management control system for receiving materials that are not on a purchase order, i.e., products returned by customers?
13. The general processes of auditing involved in audit work such as checking of posting, ascertainment of arithmetical accuracy, vouching, verification of assets and liabilities and final scrutiny of Balance Sheet are to be applied in co- operative audit as well. However, the special features of co-operative audit while conducting the audit are as follows:
- i. Examination of overdue debts - Overdue debts for a period from six months to five years and more than five years will have to be classified and shall have to be reported by an auditor. Overdue debts have far reaching consequences on the working of a credit society. It affects its working capital position. A further analysis of these overdue debts from the viewpoint of chances of recovery will have to be made, and they will have to be classified as good or bad. The auditor will have to ascertain whether proper provisions for doubtful debts are made and whether the same is satisfactory. The percentage of overdue debts to the working capital and loans advanced will have to be compared with last year, so as to see whether the trend is increasing or decreasing whether due and proper actions for recovery are taken, the position regarding cases in co-operative courts, District Courts etc. and the results thereof.
 - ii. Overdue Interest - Overdue interest should be excluded from interest outstanding and accrued due while calculating profit. Overdue interest is interest accrued or accruing in accounts, the amount of which the principal is overdue. In practice an overdue interest reserve is created and the credit of overdue interest credited to interest account is reduced.
 - iii. Certification of Bad Debts - A peculiar feature regarding the writing off of the bad debts as per Maharashtra State Co-operative Rules, 1961, is very interesting to note. As per Rule No. 49, bad debts can be written off only when they are certified as bad by the auditor. Bad debts and irrecoverable losses before being written off against Bad Debts Funds, Reserve Fund etc. should be certified as bad debts or irrecoverable losses by the auditor where the law so requires. Where no such requirement exists the managing committee of the society must authorise the write-off.
 - iv. Valuation of Assets and Liabilities - However, regarding valuation of assets there are no specific provisions or instructions under the Act and Rules and as such due regard shall be had to the general principles of accounting and auditing conventions and standards adopted.

The auditor will have to ascertain existence, ownership and valuation of assets. Fixed assets should be valued at cost less adequate provision for depreciation. The incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalised. If the difference in the original cost of acquisition and the present market price is of far reaching significance, a note regarding the present market value may be appended; so as to have a proper disclosure in the light of present inflatory conditions. The current assets are valued at cost or market price, whichever is lower. Regarding the liabilities, the auditor should see that all the known liabilities are brought into the account, and the contingent liabilities are stated by way of a note.

- v. **Adherence to Co-operative Principles** - The auditor will have to ascertain in general, how far the objects, for which the co-operative organisation is set up, have been achieved in the course of its working. The assessment is not necessarily in terms of profits, but in terms of extending of benefits to members who have formed the society. Considered from the viewpoint of social benefits it may be looked into that how far the sales could be affected at lower prices. For the achievement of these activities, cost accounting methods, store control methods, techniques of standard costing, budgetary control etc. should be adopted. However, these modern techniques are mostly not in application and as such in practice a wide gap is found in the goals to be achieved and the actual achievements. While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds. Middlemen commissions are, as far as possible, avoided and the purchases are made by the committee members directly from the wholesalers. The principles of propriety audit should be followed for the purpose.
- vi. **Observations of the Provisions of the Act and Rules** - An auditor of a co-operative society is required to point out the infringement with the provisions of Co-operative Societies Act and Rules and bye-laws. The financial implications of such infringements should be properly assessed by the auditor and they should be reported. Some of the State Acts contain restrictions on payment of dividends, which should be noted by the auditor. For example, under the Maharashtra State Act, the maximum rate of dividend prescribed is 12% but the dividend distributable in cash should not exceed 6% and the balance of 3% in excess of it should be credited to individual share capital accounts of members.
- vii. **Verification of Members' Register and examination of their pass books** - Examination of entries in members pass books regarding the loan given and its repayments, and confirmation of loan balances in person is very much important in a co-operative organisation to assure that the entries in the books of accounts are free from manipulation. Specifically in the rural and agricultural credit societies, members are not literate and as such this is a good safeguard on their part. Of course this checking will be resorted to on a test basis, which is a matter of judgement of the auditor.
- viii. **Special report to the Registrar** - During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society he may report these special matters to the Registrar, drawing his specific attention to the points. The Registrar on receipt of such a special report may take necessary action against the society. In the following cases, for instance a special report may become necessary:
 - (i) Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.
 - (ii) Detection of fraud relating to expenses, purchases, property and stores of the society.
 - (iii) Specific examples of mis-management. Decisions of management against co-operative principles.
 - (iv) In the case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of management, and deliberate negligence about the recovery thereof. Cases of reckless advancing, where the management is negligent about taking adequate security and proper safeguards for judging the credit worthiness

of the party.

- ix. **Audit classification of society** - After a judgement of an overall performance of the society, the auditor has to award a class to the society. This judgement is to be based on the criteria specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. The auditor should be very careful, while making a decision about the class of society.
 - x. **Discussion of draft audit report with managing committee** - On conclusion of the audit, the auditor should ask the Secretary of the society to convene the managing committee meeting to discuss the audit draft report. The audit report should never be finalised without discussion with the managing committee. Minor irregularities may be got settled and rectified. Matters of policy should be discussed in detail.
14. **Evaluation of internal control system in the area of credit card operations:** The evaluation of internal control system in the area of credit operations in the bank would have to be done in respect of following aspects:
1. **Segregation of Responsibilities:** The activities relating to credit card operations can be divided in specific areas, namely, beginning from the receipt of application form, evaluating the credit assessment, sanctioning the issuance of card, making and despatch of card would form part one of operations. Later on, particularly, from the accounting view, the significant operations would include receipt of statement from vendors/merchants, raising bills to customers, realisation either by directly debiting the customers' accounts or payment received through cheques, periodic reconciliation, etc. While evaluating internal controls, it would have to be seen that adequate division of responsibilities have been carried out to avoid any collusion and independent checks have been built in the system. While evaluating the internal control, it may also be considered whether some part of the operations have been outsourced or performed in-house.
 2. **Credit Assessment System:** Each application is scrutinised with reference to different parameters for assessing the credit limits to be awarded. The system must be able to generate exception reports at this stage itself. In fact, at the application stage itself, the system must ensure that the applicant was holding one card earlier or has defaulted in respect of any other agency.
 3. **Control Over Issuance of Cards:** The internal control system must ensure that the cards are under the control of responsible official. A detailed record alongwith relevant pin codes, etc. have been kept. See that the system has built-in features that it is almost impossible to make counterfeit cards as also photographs are affixed to prohibit any unauthorised use of the same.
 4. **Reconciling Merchant Records:** It is to be checked whether the system has built-in flexibility of reporting of the payments to be made to merchants and making prompt payment to them. Simultaneously, it should be seen that customer statements are also generated automatically and despatched to them.
 5. **Periodic Reconciliation and follow-up:** It may be seen whether periodic reconciliation of customers' accounts is done and regular follow-up of overdue accounts takes place. The person who are responsible for maintaining customers' records are not entrusted with the responsibility of reconciliation and follow-up.
15. **Salient features of Investors Education and Protection Fund:** Section 205(C) of the Act empowers the Central Government to establish a fund to be called the Investor Education and Protection Fund to be utilized for the promotion of investor awareness and protection of the interest of the investors.
- (i) There shall be credited to the Fund the following amounts, namely:
 - (a) amounts in the unpaid dividend accounts of companies;

- (b) the application moneys received by companies for allotment of any securities and due for refund;
- (c) matured deposits with companies;
- (d) matured debentures with companies;
- (e) the interest accrued on the amounts referred to in clauses (a) to (d);
- (f) grants and donations given to the Fund by the Central Government. State Governments, companies or any other institutions for the purposes of the Fund; and
- (g) the interest or other income received out of the investments made from the Fund;

Provided that no such amounts referred to in clauses (a) to (d) shall form part of the Fund unless such amounts have remained unclaimed and unpaid for a period of seven years from the date they became due for payment.

No claims shall lie against the Fund or the company in respect of individual amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims.

- (ii) The Fund shall be utilised for promotion of investor awareness and protection of the interests of investors in accordance with such rules as may be prescribed.
- (iii) The Central Government shall, by notification in the Official Gazette specify an authority or committee, with such members as the Central Government may appoint, to administer the Fund, and maintain separate accounts and other relevant records in relation to the Fund in such form as may be prescribed in consultation with the Comptroller and Auditor General of India.
- (iv) It shall be competent for the authority or committee appointed under sub-section (4) to spend moneys out of the Fund for carrying out the objects for which the Fund has been established.

Annexure 1

THE CHARTERED ACCOUNTANTS ACT, 1949¹

(No. 38 of 1949)

[As amended by The Chartered Accountants

(Amendment) Act, 2006 (No. 9 of 2006)²]

An Act to make provision for the regulation of the profession of Chartered Accountants.

WHEREAS it is expedient to make provision for the regulation of the profession of chartered accountants and for that purpose to establish an Institute of Chartered Accountants;

It is hereby enacted as follows :—

CHAPTER I

PRELIMINARY

1. Short title, extent and commencement

- (1) This Act may be called the Chartered Accountants Act, 1949.

¹ This Act received the assent of the Governor-General on the 1st May 1949 and was published in Part IV of the Gazette of India Extraordinary dated the 3rd May 1949.

² This Act received the assent of the President on the 22nd March, 2006, and was published in Part II Section I of Gazette of India Extraordinary dated the 23rd March, 2006.

- (2) It extends to the whole of India.
- (3) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint in this behalf.

2. Interpretation

- (1) In this Act, unless there is anything repugnant in the subject or context,–
 - (a) “associate” means an associate member of the Institute;
 - ³[(aa) “Authority” means the Appellate Authority constituted under section 22A;
 - (aaa) “Board” means the Quality Review Board constituted under section 28A];
 - (b) “chartered accountant” means a person who is a member of the Institute;
 - (c) “Council” means the Council of the Institute;
 - (d) “holder of a restricted certificate” means a person holding a permanent or temporary restricted certificate granted by a Provincial Government under the Restricted Certificates Rules, 1932;
 - (e) “Institute” means the Institute of Chartered Accountants of India constituted under this Act;
 - ⁴[(ea) “notification” means a notification published in the Official Gazette];
 - (f) “prescribed” means prescribed by regulations made under this Act;
 - (g) “Register” means the Register of Members maintained under this Act;
 - (h) “registered accountant” means any person who has been enrolled on the Register of Accountants maintained by the Central Government under the Auditor’s Certificates Rules, 1932;
 - ⁵[(ha) “specified” means specified by rules made by the Central Government under this Act;
 - (hb) “Tribunal” means a Tribunal established under sub-section (1) of section 10B;]
 - (i) “year” means the period commencing on the 1st day of April of any year and ending on the 31st day of March of the succeeding year.
- (2) A member of the Institute shall be deemed “to be in practice”, when individually or in partnership with chartered accountants in practice, he, in consideration of remuneration received or to be received,–
 - (i) engages himself in the practice of accountancy; or
 - (ii) offers to perform or performs services involving the auditing or verification of financial transactions, books, accounts or records, or the preparation, verification or certification of financial accounting and related statements or holds himself out to the public as an accountant; or
 - (iii) renders professional services or assistance in or about matters of principle or detail relating to accounting procedure or the recording, presentation or certification of financial facts or data; or
 - (iv) renders such other services as, in the opinion of the Council, are or may be rendered by a chartered accountant in practice; and the words “to be in practice” with their grammatical variations and cognate expressions shall be construed accordingly.

Explanation :– An associate or a fellow of the Institute who is a salaried employee of a chartered accountant in practice or a firm of such chartered accountants shall, notwithstanding such employment, be deemed to be in practice for the limited purpose of the ⁶[training of articled assistants].

³ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

⁴ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

⁵ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

⁶ Substituted, for the words, “training of articled clerks” by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

CHAPTER II

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

3. Incorporation of the Institute

- (1) All persons whose names are entered in the Register at the commencement of this Act and all persons who may hereafter have their names entered in the Register under the provisions of this Act, so long as they continue to have their names borne on the said Register, are hereby constituted a body corporate by the name of the Institute of Chartered Accountants of India, and all such persons shall be known as members of the Institute.
- (2) The Institute shall have perpetual succession and a common seal and shall have power to acquire, hold and dispose of property, both movable and immovable, and shall by its name sue or be sued.

4. Entry of names in the Register

- (1) Any of the following persons shall be entitled to have his name entered in the Register, namely :—
 - (i) any person who is a registered accountant or a holder of a restricted certificate at the commencement of this Act;
 - (ii) any person who has passed such examination and completed such training as may be prescribed for members of the Institute;
 - (iii) any person who has passed the examination for the Government Diploma in Accountancy or an examination recognised as equivalent thereto by the rules for the award of the Government Diploma in Accountancy before the commencement of this Act, and who, although not duly qualified to be registered as an accountant under the Auditor's Certificates Rules, 1932, fulfils such conditions as the Central Government may specify in this behalf;
 - (iv) any person who, at the commencement of this Act, is engaged in the practice of accountancy in any Part B State and who, although not possessing the requisite qualifications to be registered as an accountant under the Auditor's Certificates Rules, 1932, fulfils such conditions as the Central Government may specify in this behalf;
 - (v) any person who has passed such other examination and completed such other training without India as is recognized by the Central Government or the Council as being equivalent to the examination and training prescribed for members of the Institute:
 Provided that in the case of any person who is not permanently residing in India, the Central Government or the Council, as the case may be, may impose such further conditions as it may deem fit;
 - (vi) any person domiciled in India who at the commencement of this Act is studying for any foreign examination and is at the same time undergoing training, whether within or without India, or, who, having passed such foreign examination, is at the commencement of this Act undergoing training, whether within or without India:

Provided that any such examination or training was recognised before the commencement of this Act for the purpose of conferring the right to be registered as an accountant under Auditor's Certificates Rules, 1932, and provided further that such person passes the examination or completes the training within five years after the commencement of this Act.

- (2) Every person belonging to the class mentioned in clause (i) of sub-section (1) shall have his name entered in the Register without the payment of any entrance fee.

⁷[(3) Every person belonging to any of the classes mentioned in clauses (ii), (iii), (iv), (v) and (vi) of

⁷ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006:-

“(3) Every person belonging to any of the classes mentioned in clauses (ii), (iii), (iv), (v) and (vi) of sub-section (1) shall have his name entered in the Register on application being made and granted in the

subsection (1) shall have his name entered in the Register on application being made and granted in the prescribed manner and on payment of such fees, as may be determined, by notification, by the Council, which shall not exceed rupees three thousand:

Provided that the Council may, with the prior approval of the Central Government, determine the fee exceeding rupees three thousand, which shall not in any case exceed rupees six thousand.]

- (4) The Central Government shall take such steps as may be necessary for the purpose of having the names of all persons belonging to the class mentioned in clause (i) of sub-section (1) entered in the Register.

5. Fellows and Associates

- (1) The members of the Institute shall be divided into two classes designated respectively as associates and fellows.
- (2) Any person shall, on his name being entered in the Register, be deemed to have become an associate member of the Institute and be entitled to use the letters A.C.A. after his name to indicate that he is an associate member of the Institute of Chartered Accountants.

⁸[(3) A member, being an associate who has been in continuous practice in India for at least five years, whether before or after the commencement of this Act, or whether partly before and partly after the commencement of this Act, and a member who has been an associate for a continuous period of not less than five years and who possesses such qualifications as the Council may prescribe with a view to ensuring that he has experience equivalent to the experience normally acquired as a result of continuous practice for a period of five years as a chartered accountant shall, on payment of such fees, as may be determined, by notification, by the Council, which shall not exceed rupees five thousand and on application made and granted in the prescribed manner, be entered in the Register as a fellow of the Institute and shall be entitled to use the letters F.C.A. after his name to indicate that he is a fellow of the Institute of Chartered Accountants:

Provided that the Council may with the prior approval of the Central Government, determine the fee exceeding rupees five thousand, which shall not in any case exceed rupees ten thousand.]

6. Certificate of practice

- (1) No member of the Institute shall be entitled to practise whether in India or elsewhere unless he has obtained from the Council a certificate of practice:

Provided that nothing contained in this sub-section shall apply to any person who, immediately before the commencement of this Act, has been in practice as a registered accountant or a holder of a restricted certificate until one month has elapsed from the date of the first meeting of the Council.

⁹[(2) Every such member shall pay such annual fee for his certificate as may be determined, by

prescribed manner and on payment of the prescribed fee, which shall not exceed rupees three hundred in any case.”

⁸ 2Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006:-

“(3) A member, being an associate who has been in continuous practice in India for at least five years, whether before or after the commencement of this Act, or whether partly before and partly after the commencement of this Act, and a member who has been an associate for a continuous period of not less than five years and who possesses such qualifications as the Council may prescribe with a view to ensuring that he has experience equivalent to the experience normally acquired as a result of continuous practice for a period of five years, as a chartered accountant shall, on payment of the prescribed entrance fee, which shall not exceed rupees two hundred in any case, and on application made and granted in the prescribed manner, be entered in the Register as a fellow of the Institute and shall be entitled to use the letters F.C.A. after his name to indicate that he is a fellow of the Institute of Chartered Accountants.”

⁹ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006:-

notification, by the Council, which shall not exceed rupees three thousand, and such fee shall be payable on or before the 1st day of April in each year:

Provided that the Council may with the prior approval of the Central Government, determine the fee exceeding rupees three thousand, which shall not in any case exceed rupees six thousand.]

¹⁰[(3) The certificate of practice obtained under subsection (1) may be cancelled by the Council under such circumstances as may be prescribed.]

7. Members to be known as Chartered Accountants

Every member of the Institute in practice shall, and any other member may, use the designation of a chartered accountant and no member using such designation shall use any other description, whether in addition thereto or in substitution therefor:

Provided that nothing contained in this section shall be deemed to prohibit any such person from adding any other description or letters to his name, if entitled thereto, to indicate membership of such other Institute of accountancy, whether in India or elsewhere, as may be recognised in this behalf by the Council, or any other qualification that he may possess, or to prohibit a firm, all the partners of which are members of the Institute and in practice, from being known by its firm name as Chartered Accountants.

8. Disabilities

Notwithstanding anything contained in Section 4, a person shall not be entitled to have his name entered in or borne on the Register if he –

- (i) has not attained the age of twenty-one years at the time of his application for the entry of his name in the Register; or
- (ii) is of unsound mind and stands so adjudged by a competent Court; or
- (iii) is an undischarged insolvent; or
- (iv) being a discharged insolvent, has not obtained from the Court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part; or
- (v) has been convicted by a competent Court whether within or without India, of an offence involving moral turpitude and punishable with transportation or imprisonment or of an offence, not of a technical nature, committed by him in his professional capacity unless in respect of the offence committed he has either been granted a pardon or, on an application made by him in this behalf, the Central Government has, by an order in writing, removed the disability; or
- (vi) has been removed from membership of the Institute on being found on inquiry to have been guilty of professional or other misconduct:

Provided that a person who has been removed from membership for a specified period, shall not be entitled to have his name entered in the Register until the expiry of such period.

CHAPTER III

COUNCIL OF THE INSTITUTE

9. Constitution of the Council of the Institute

(1) There shall be a Council of the Institute for the management of the affairs of the Institute and for discharging the functions assigned to it under this Act.

¹¹[(2) The Council shall be composed of the following persons, namely:--

“(2) Every such member shall pay such annual fee for his certificate as may be prescribed, and such fee shall be payable on or before the 1st day of April in each year.”

¹⁰ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006

¹¹ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 5.9.2006:--

- (a) not more than thirty-two persons elected by the members of the Institute from amongst the fellows of the Institute chosen in such manner and from such regional constituencies as may be specified:

Provided that a fellow of the Institute, who has been found guilty of any professional or other misconduct and whose name is removed from the Register or has been awarded penalty of fine, shall not be eligible to contest the election, –

- (i) in case of misconduct falling under the First Schedule of this Act, for a period of three years;
 - (ii) in case of misconduct falling under the Second Schedule of this Act, for a period of six years, from the completion of the period of removal of name from the Register or payment of fine, as the case may be;
- (b) not more than eight persons to be nominated in the specified manner, by the Central Government.]

¹²[(3) No person holding a post under the Central Government or a State Government shall be eligible for election to the Council under clause (a) of sub-section (2).

(4) No person who has been auditor of the Institute shall be eligible for election to the Council under clause (a) of sub-section (2), for a period of three years after he ceases to be an auditor.]

¹³[10. Re-election or re-nomination to Council

A member of the Council, elected or nominated under sub-section (2) of section 9, shall be eligible for re-election or, as the case may be, re-nomination:

Provided that no member shall hold the office for more than three consecutive terms:

Provided further that a member of the Council, who is or has been elected as President under sub-section (1) of section 12, shall not be eligible for election or nomination as a member of the Council.]

¹⁴[10A. Settlement of dispute regarding election

In case of any dispute regarding any election under clause (a) of sub-section (2) of section 9, the aggrieved person may make an application within thirty days from the date of declaration of the result of election to the Secretary of the Institute, who shall forward the same to the Central Government.

10B. Establishment of Tribunal

- (1) On receipt of any application under section 10A, the Central Government shall, by notification, establish a Tribunal consisting of a Presiding Officer and two other Members to decide such dispute and the decision of such Tribunal shall be final.

“(2) The Council shall be composed of the following persons, namely:-

(a) not more than twenty-four persons elected by members of the Institute from amongst the fellows of the Institute chosen in such manner and from such regional constituencies as may be specified in this behalf by the Central Government by notification in the Official Gazette;

(b) six persons nominated by the Central Government.”

¹² Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 5.9.2006.

¹³ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006:-

“10. *Mode of election to the Council*

(1) Elections under clause (a) of sub-section (2) of section 9 shall be conducted in the prescribed manner.

(2) Where any dispute arises regarding any such election, the matter shall be referred by the Council to a Tribunal appointed by the Central Government in this behalf and the decision of such Tribunal shall be final:

Provided that no such reference shall be made except on an application made to the Council by an aggrieved party within thirty days from the date of the declaration of the result of the election.

(3) The expenses of the Tribunal shall be borne by the Council.”

¹⁴ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006.

- (2) A person shall not be qualified for appointment,–
 - (a) as a Presiding Officer of the Tribunal unless he has been a member of the Indian Legal Service and has held a post in Grade I of the service for at least three years;
 - (b) as a Member unless he has been a member of the Council for at least one full term and who is not a sitting member of the Council or who has not been a candidate in the election under dispute; or
 - (c) as a Member unless he holds the post of a Joint Secretary to the Government of India or any other post under the Central Government carrying a scale of pay which is not less than that of a Joint Secretary to the Government of India.
- (3) The terms and conditions of service of the Presiding Officer and Members of the Tribunal, their place of meetings and allowances shall be such as may be specified.
- (4) The expenses of the Tribunal shall be borne by the Council.]

11. Nomination in default of election or nomination

If any body of persons referred to in section 9 fails to elect any of the members of the Council which it is empowered under that section to elect, the Central Government may nominate a person duly qualified to fill the vacancy, and any person so nominated shall be deemed to be a member of the Council as if he had been duly elected.

12. President and Vice-President

- (1) The Council at its first meeting shall elect two of its members to be respectively the President and the Vice- President thereof, and so often as the office of the President or the Vice-President becomes vacant the Council shall choose another person to be the President or the Vice-President as the case may be:

Provided that on the first constitution of the Council a member of the Council nominated in this behalf by the Central Government shall discharge the functions of the President, until such time as a President is elected under the provisions of the sub-section.

- (2) The President shall be the Chief Executive Authority of the Council.
- (3) The President or the Vice-President shall hold office for a period of one year from the date on which he is chosen but so as not to extend beyond his term of office as a member of the Council, and, subject to his being a member of the Council at the relevant time, he shall be eligible for re-election ¹⁵[under sub-section (1)]
- (4) On the expiration of the duration of the Council, the ¹⁶[President and the Vice-President] of the Council at the time of such expiration shall continue to hold office and discharge such administrative and other duties as may be prescribed until such time as a new ¹⁷[President and the Vice- President] shall have been elected and shall have taken over ¹⁸[charge of their duties.]

13. Resignation of membership and casual vacancies

- (1) Any member of the Council may at any time resign his membership by writing under his hand addressed to the President, and the seat of such member shall become vacant when such resignation is notified in the Official Gazette.
- (2) A member of the Council shall be deemed to have vacated his seat if he is declared by the Council to have been absent without sufficient excuse from three consecutive meetings of the

¹⁵ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

¹⁶ Substituted, for the word “President”, in both the places by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

¹⁷ Substituted, for the word “President”, in both the places by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

¹⁸ Substituted, for the words, “charge of his duties” by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

Council ¹⁹[or he has been found guilty of any professional or other misconduct and awarded penalty of fine,] or if his name is, for any cause, removed from the Register under the provisions of section

- (3) A casual vacancy in the Council shall be filled by fresh election from the constituency concerned or by nomination by the Central Government, as the case may be, and the person elected or nominated to fill the vacancy shall hold office until the dissolution of the Council:

Provided that no election shall be held to fill a casual vacancy occurring within ²⁰[one year] prior to the date of the expiration of the duration of the Council, but such a vacancy may be filled by nomination by the Central Government after consultation with the President of the Council.

- (4) No act done by the Council shall be called in question on the ground merely of the existence of any vacancy in, or defect in the constitution of, the Council.

14. Duration and dissolution of Council

- (1) The duration of any Council constituted under this Act shall be three years from the date of its first meeting, on the expiry of which it shall stand dissolved and a new Council constituted in accordance with the provisions of this Act.
- (2) Notwithstanding the expiration of the duration of a Council (hereinafter referred to as the former Council), the former Council shall continue to exercise its functions until a new Council is constituted in accordance with the provisions of this Act, and on such constitution, the former Council shall stand dissolved.

²¹[15. Functions of Council

- (1) The Institute shall function under the overall control, guidance and supervision of the Council and the duty of carrying out the provisions of this Act shall be vested in the Council.
- (2) In particular, and without prejudice to the generality of the foregoing powers, the duties of the

¹⁹ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006.

²⁰ Substituted, for the word, "six months" by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006

²¹ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006:-

"15. Functions of the Council

- (1) The duty of carrying out the provisions of this Act shall be vested in the Council.
- (2) In particular, and without prejudice to the generality of the foregoing power, the duties of the Council shall include —
- (a) the examination of candidates for enrolment and the prescribing of fees therefor;
 - (b) the regulation of the engagement and training of articled and audit clerks;
 - (c) the prescribing of qualifications for entry in the Register;
 - (d) the recognition of foreign qualifications and training for purposes of enrolment;
 - (e) the granting or refusal of certificates of practice under this Act;
 - (f) the maintenance and publication of a Register of persons qualified to practise as chartered accountants;
 - (g) the levy and collection of fees from members, examinees and other persons;
 - (h) the removal of names from the Register and the restoration to the Register of names which have been removed;
 - (i) the regulation and maintenance of the status and standard of professional qualifications of members of this Institute;
 - (j) the carrying out, by financial assistance to persons other than members of the Council or in any other manner, of research in accountancy;
 - (k) the maintenance of a library and publication of books and periodicals relating to accountancy; and
 - (l) the exercise of disciplinary powers conferred by this Act."

Council shall include –

- (a) to approve academic courses and their contents;
- (b) the examination of candidates for enrolment and the prescribing of fees therefor;
- (c) the regulation of the engagement and training of articled and audit assistants;
- (d) the prescribing of qualifications for entry in the Register;
- (e) the recognition of foreign qualifications and training for the purposes of enrolment;
- (f) the granting or refusal of certificates of practice under this Act;
- (g) the maintenance and publication of a Register of persons qualified to practice as chartered accountants;
- (h) the levy and collection of fees from members, examinees and other persons;
- (i) subject to the orders of the appropriate authorities under the Act, the removal of names from the Register and the restoration to the Register of names which have been removed;
- (j) the regulation and maintenance of the status and standard of professional qualifications of members of the Institute;
- (k) the carrying out, by granting financial assistance to persons other than members of the Council or in any other manner, of research in accountancy;
- (l) the maintenance of a library and publication of books and periodicals relating to accountancy;
- (m) to enable functioning of the Director (Discipline), the Board of Discipline, the Disciplinary Committee and the Appellate Authority constituted under the provisions of this Act;
- (n) to enable functioning of the Quality Review Board;
- (o) consideration of the recommendations of the Quality Review Board made under clause (a) of section 28B and the details of action taken thereon in its annual report; and
- (p) to ensure the functioning of the Institute in accordance with the provisions of this Act and in performance of other statutory duties as may be entrusted to the Institute from time to time.]

²²[15A. Imparting education by Universities and other bodies

- (1) Subject to the provisions of this Act, any University established by law or any body affiliated to the Institute, may impart education on the subjects covered by the academic courses of the Institute.
- (2) The Universities or bodies referred to in subsection (1) shall, while awarding degree, diploma or certificate or bestowing any designation, ensure that the award or designation do not resemble or is not identical to one awarded by the Institute.
- (3) Nothing contained in this section shall enable a University or a body to adopt a name or nomenclature which is in any way similar to that of the Institute.]

²³[16. Officers and employees, salary, allowances, etc.

²² Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

²³ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006:-

“16. Staff, remuneration and allowances

- (1) For the efficient performance of its duties, the Council may --
- (a) appoint a Secretary who may also, if so decided by the Council, act as Treasurer;
- (b) appoint such other officers and servants as it deems necessary;
- (c) require and take from the Secretary or from any other officer or servant of the Council such security for the due performance of his duties, as the Council considers necessary;
- (d) fix the salaries, fees, allowances and other conditions of service of the officers and servants of the Council;

- (1) For the efficient performance of its duties, the Council shall–
 - (a) appoint a Secretary to perform such duties as may be prescribed;
 - (b) appoint a Director (Discipline) to perform such functions as are assigned to him under this Act and the rules and regulations framed thereunder;
- (2) The Council may also–
 - (a) appoint such other officers and employees as it considers necessary;
 - (b) require and take from the Secretary or from any other officer or employee such security for the due performance of his duties, as the Council considers necessary;
 - (c) prescribe the salaries, fees, allowances of the officers and employees and their terms and conditions of service;
 - (d) with the previous sanction of the Central Government, fix the allowances of the President, Vice-President and other members of the Council and members of its Committees.
- (3) The Secretary of the Council shall be entitled to participate in the meetings of the Council but shall not be entitled to vote thereat.]

17. Committees of the Council

- (1) The Council shall constitute from amongst its members the following Standing Committees, namely:-
 - (i) an Executive Committee,
 - (ii) an Examination Committee, and ²⁴[(iii) a Finance Committee.]
- ²⁵[(2) The Council may also form such other committees from amongst its members as it consider necessary for the purpose of carrying out the provisions of this Act, and any Committee so formed may, with the sanction of the Council, co-opt such other members of the Institute not exceeding one-third of the members of the committee as it thinks fit, and any member so co-opted shall be entitled to exercise all the rights of a member of the committee.
- (3) Each of the Standing Committees shall consist of the President and the Vice-President *ex officio*, and minimum of three and maximum of five members to be elected by the Council from amongst its members.]
- (4) The President and the Vice-President of the Council shall be the Chairman and Vice-Chairman respectively of each of the Standing Committees.

(e) with the previous sanction of the Central Government, fix the allowances of the President, Vice-President and other members of the Council and members of its Committees.

(2) Notwithstanding anything contained in subsection (1), on the first constitution of the Council the Secretary shall be a person appointed by the Central Government in consultation with the Council, and he shall hold office during the pleasure of the Central Government, but so as not to exceed a period of three years from the date of his appointment.

(3) The Secretary of the Council shall be entitled to participate in the meetings of the Council but shall not be entitled to vote thereat.”

²⁴ Substituted, for the words, “a Disciplinary Committee” by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006.

²⁵ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006:-

“(2) The Council may also form such other committees from amongst its members as it deems necessary for the purpose of carrying out the provisions of this Act, and any committee so formed may, with the sanction of the Council, co-opt such other members of the Institute not exceeding two-thirds of the members of the committee as the committee thinks fit, and any member so co-opted shall be entitled to exercise all the rights of a member of the committee.

(3) Each of the Standing Committees shall consist of the President and the Vice-President *ex-officio*, and three other members of the Council elected by the Council:

Provided that in the case of the Disciplinary Committee, out of the members to be elected, two shall be elected by the Council, and the third nominated by the Central Government from amongst the persons nominated to the Council by the Central Government.”

- (5) Every member of the Standing Committee other than the Chairman and the Vice-Chairman shall hold office for one year from the date of his election, but, subject to being a member of the Council, he shall be eligible for re-election.
- (6) The Standing Committees shall exercise such functions and be subject to such conditions in the exercise thereof as may be prescribed.

18. Finances of the Council

- (1) There shall be established a fund under the management and control of the Council into which shall be paid all moneys received by the Council and out of which shall be met all expenses and liabilities properly incurred by the Council.
- (2) The Council may invest any money for the time being standing to the credit of the fund in any Government security or in any other security approved by the Central Government.

²⁶[(3) The Council shall keep proper accounts of the fund distinguishing capital from revenue in the manner prescribed.

- (4) The Council shall prepare in the manner prescribed and approve, prior to the start of the financial year, an annual financial statement (the budget) indicating all its anticipated revenues as well as all proposed expenditures for the forthcoming year.

- (5) The annual accounts of the Council shall be prepared in such manner as may be prescribed and be subject to audit by a chartered accountant in practice to be appointed annually by the Council:

Provided that no member of the Council or a person who has been a member of the Council during the last four years or a person who is in partnership with such member shall be eligible for appointment as an auditor under this sub-section:

Provided further that, in the event it is brought to the notice of the Council that the accounts of the Council do not represent a true and fair view of its finances, then, the Council may itself cause a special audit to be conducted:

Provided also that, if such information, that the accounts of the Council do not represent a true and fair view of its finances, is sent to the Council by the Central Government, then, the Council may, wherever appropriate cause a special audit or take such other action as it considers necessary and shall furnish an action taken report on it to the Central Government.]

²⁷[(5A) As soon as may be practicable at the end of each year, the Council shall circulate the audited accounts to its members at least fifteen days in advance and consider and approve these accounts in a special meeting convened for the purpose.

- (5B) The Council shall cause to be published in the Gazette of India not later than the 30th day of September of the year next following, a copy of the audited accounts and the Report of the Council for that year duly approved by the Council and copies of the said accounts and Report shall be forwarded to the Central Government and to all the members of the Institute.]

- (6) The Council may borrow from a scheduled bank, as defined in the Reserve Bank of India Act, 1934, (II of 1934) or from the Central Government—

²⁶ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006:-

“(3) The Council shall keep proper accounts of the fund distinguishing capital from revenue.

(4) The annual accounts of the Council shall be subject to audit by a chartered accountant in practice to be appointed annually by the Council:

Provided that no member of the Council or a person who is in partnership with such member shall be eligible for appointment as an auditor under this sub-section.

(5) As soon as may be practicable at the end of each year, but not later than the 30th day of September of the year next following, the Council shall cause to be published in the Gazette of India a copy of the audited accounts and the Report of the Council for that year and copies of the said accounts and Report shall be forwarded to the Central Government and to all the members of the Institute.”

²⁷ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006.

- (a) any money required for meeting its liabilities on capital account on the security of the fund or on the security of any other assets for the time being belonging to it, or
- (b) for the purpose of meeting current liabilities pending the receipt of income, by way of temporary loan or overdraft.

CHAPTER IV

REGISTER OF MEMBERS

19. Register

- (1) The Council shall maintain, in the prescribed manner, a Register of the Members of the Institute.
- (2) The Register shall include the following particulars about every member of the Institute, namely:-
 - (a) his full name, date of birth, domicile, residential and professional address;
 - (b) the date on which his name is entered in the Register;
 - (c) his qualifications;
 - (d) whether he holds a certificate of practice; and
 - (e) any other particulars which may be prescribed.
- (3) The Council shall cause to be published in such manner as may be prescribed, a list of members of the Institute as on the 1st day of April of each year, and shall, if requested to do so by any such member, send to him a copy of such list ²⁸[on payment of such amount as may be prescribed.]
- ²⁹[(4) Every member of the Institute shall, on his name being entered in the Register, pay such annual membership fee as may be determined, by notification, by the Council, which shall not exceed rupees five thousand:
 Provided that the Council may with the prior approval of the Central Government, determine the fee exceeding rupees five thousand, which shall not in any case exceed rupees ten thousand.]

20. Removal from the Register

- (1) The Council may remove from the Register the name of any member of the Institute–
 - (a) who is dead; or
 - (b) from whom a request has been received to that effect; or
 - (c) who has not paid any prescribed fee required to be paid by him; or
 - (d) who is found to have been subject at the time when his name was entered in the Register, or who at any time thereafter has become subject, to any of the disabilities mentioned in section 8, or who for any other reason has ceased to be entitled to have his name borne on the Register.
- (2) The Council shall remove from the Register the name of any member in respect of whom an order has been passed under this Act removing him from membership of the Institute.
- ³⁰[(3) If the name of any member has been removed from the Register under clause (c) of sub-section (1), on receipt of an application, his name may be entered again in the Register on payment of the arrears of annual fee and entrance fee along with such additional fee, as may be determined, by notification, by the Council which shall not exceed rupees two thousand:
 Provided that the Council may with the prior approval of the Central Government, determine the fee exceeding rupees two thousand, which shall not in any case exceed rupees four thousand.]

²⁸ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006.

²⁹ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006:-

“(4) Every member of the Institute shall, on his name being entered in the Register, pay such annual membership fee differing in amount according as he is an associate or a fellow of the Institute as may be prescribed.”

³⁰ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

CHAPTER V

MISCONDUCT

31[21. Disciplinary Directorate

³¹ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006:-

“21. *Procedure in inquiries relating to misconduct of members of Institute*

(1) Where on receipt of information by, or of a complaint made to it, the Council is *prima facie* of opinion that any member of the Institute has been guilty of any professional or other misconduct, the Council shall refer the case to the Disciplinary Committee, and the Disciplinary Committee shall thereupon hold such inquiry and in such manner as may be prescribed, and shall report the result of its inquiry to the Council.

(2) If on receipt of such report the Council finds that the member of the Institute is not guilty of any professional or other misconduct, it shall record its finding accordingly and direct that the proceedings shall be filed or the complaint shall be dismissed, as the case may be.

(3) If on receipt of such report the Council finds that the member of the Institute is guilty of any professional or other misconduct, it shall record a finding accordingly and shall proceed in the manner laid down in the succeeding sub-sections.

(4) Where the finding is that a member of the Institute has been guilty of a professional misconduct specified in the First Schedule, the Council shall afford to the member an opportunity of being heard before orders are passed against him on the case, and may thereafter make any of the following orders, namely:-

(a) reprimand the member;

(b) remove the name of the member from the Register for such period, not exceeding five years, as the Council thinks fit:

Provided that where it appears to the Council that the case is one in which the name of the member ought to be removed from the Register for a period exceeding five years or permanently, it shall not make any order referred to in clause (a) or clause (b), but shall forward the case to the High Court with its recommendations thereon.

(5) Where the misconduct in respect of which the Council has found any member of the Institute guilty is misconduct other than any such misconduct as is referred to in sub-section (4), it shall forward the case to the High Court with its recommendations thereon.

(6) On receipt of any case under sub-section (4) or sub-section (5), the High Court shall fix a date for the hearing of the case and shall cause notice of the date so fixed to be given to the member of the Institute concerned, the Council and to the Central Government, and shall afford such member, the Council and the Central Government an opportunity of being heard, and may thereafter make any of the following orders, namely:-

(a) direct that the proceedings be filed, or dismiss the complaint, as the case may be;

(b) reprimand the member;

(c) remove him from membership of the Institute either permanently or for such period as the High Court thinks fit;

(d) refer the case to the Council for further inquiry and report.

(7) Where it appears to the High Court that the transfer of any case pending before it to another High Court will promote the ends of justice or tend to the general convenience of the parties, it may so transfer the case, subject to such conditions, if any, as it thinks fit to impose, and the High Court to which such case is transferred shall deal with it as if the case had been forwarded to it by the Council.

Explanation I :- In this section “High Court” means the highest civil court of appeal, not including the Supreme Court, exercising jurisdiction in the area in which the person whose conduct is being inquired into carries on business, or has his principal place of business at the commencement of the inquiry:

Provided that where the cases relating to two or more members of the Institute have to be forwarded by the Council to different High Courts, the Central Government shall, having regard to the ends of justice and the general convenience of the parties, determine which of the High Courts to the exclusion of others shall hear the cases against all the members.

Explanation II :- For the purposes of this section “member of the Institute” includes a person who was a member of the Institute on the date of the alleged misconduct although he has ceased to be a member of the Institute at the time of the inquiry.

(8) For the purposes of any inquiry under this section, the Council and the Disciplinary Committee shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908, in respect of the following matters, namely:-

- (1) The Council shall, by notification, establish a Disciplinary Directorate headed by an officer of the Institute designated as Director (Discipline) and such other employees for making investigations in respect of any information or complaint received by it.
- (2) On receipt of any information or complaint along with the prescribed fee, the Director (Discipline) shall arrive at a prima facie opinion on the occurrence of the alleged misconduct.
- (3) Where the Director (Discipline) is of the opinion that a member is guilty of any professional or other misconduct mentioned in the First Schedule, he shall place the matter before the Board of Discipline and where the Director (Discipline) is of the opinion that a member is guilty of any professional or other misconduct mentioned in the Second Schedule or in both the Schedules, he shall place the matter before the Disciplinary Committee.
- (4) In order to make investigations under the provisions of this Act, the Disciplinary Directorate shall follow such procedure as may be specified.
- (5) Where a complainant withdraws the complaint, the Director (Discipline) shall place such withdrawal before the Board of Discipline or, as the case may be, the Disciplinary Committee, and the said Board or Committee may, if it is of the view that the circumstances so warrant, permit the withdrawal at any stage.]

³²[21A. Board of Discipline

- (1) The Council shall constitute a Board of Discipline consisting of—
 - (a) a person with experience in law and having knowledge of disciplinary matters and the profession, to be its presiding officer;
 - (b) two members one of whom shall be a member of the Council elected by the Council and the other member shall be nominated by the Central Government from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy;
 - (c) the Director (Discipline) shall function as the Secretary of the Board.
- (2) The Board of Discipline shall follow summary disposal procedure in dealing with all cases before it.
- (3) Where the Board of Discipline is of the opinion that a member is guilty of a professional or other misconduct mentioned in the First Schedule, it shall afford to the member an opportunity of being heard before making any order against him and may thereafter take any one or more of the following actions, namely :—
 - (a) reprimand the member;
 - (b) remove the name of the member from the Register up to a period of three months;
 - (c) impose such fine as it may think fit which may extend to rupees one lakh.
- (4) The Director (Discipline) shall submit before the Board of Discipline all information and complaints where he is of the opinion that there is no prima facie case and the Board of Discipline may, if it agrees with the opinion of the Director (Discipline), close the matter or in case of disagreement, may advise the Director (Discipline) to further investigate the matter.

21B. Disciplinary Committee

- (1) The Council shall constitute a Disciplinary Committee consisting of the President or the Vice-President of the Council as the Presiding Officer and two members to be elected from amongst the members of the Council and two members to be nominated by the Central Government from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy:

-
- (a) summoning and enforcing the attendance of any person and examining him on oath;
 - (b) the discovery and production of any document; and
 - (c) receiving evidence on affidavit.”

³² Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006.

Provided that the Council may constitute more Disciplinary Committees as and when it considers necessary.

- (2) The Disciplinary Committee, while considering the cases placed before it shall follow such procedure as may be specified.
- (3) Where the Disciplinary Committee is of the opinion that a member is guilty of a professional or other misconduct mentioned in the Second Schedule or both the First Schedule and the Second Schedule, it shall afford to the member an opportunity of being heard before making any order against him and may thereafter take any one or more of the following actions, namely: -
 - (a) reprimand the member;
 - (b) remove the name of the member from the Register permanently or for such period, as it thinks fit;
 - (c) impose such fine as it may think fit, which may extend to rupees five lakhs.
- (4) The allowances payable to the members nominated by the Central Government shall be such as may be specified.

21C. Authority, Disciplinary Committee, Board of Discipline and Director (Discipline) to have powers of civil court

For the purposes of an inquiry under the provisions of this Act, the Authority, the Disciplinary Committee, Board of Discipline and the Director (Discipline) shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908(No.5 of 1908) , in respect of the following matters, namely:-

- (a) summoning and enforcing the attendance of any person and examining him on oath;
- (b) the discovery and production of any document; and
- (c) receiving evidence on affidavit.

Explanation :- For the purposes of sections 21, 21A, 21B, 21C and 22, "member of the Institute" includes a person who was a member of the Institute on the date of the alleged misconduct although he has ceased to be a member of the Institute at the time of the inquiry.

21D. Transitional provisions

All complaints pending before the Council or any inquiry initiated by the Disciplinary Committee or any reference or appeal made to a High Court prior to the commencement of the Chartered Accountants (Amendment) Act, 2006, shall continue to be governed by the provisions of this Act, as if this Act had not been amended by the Chartered Accountants (Amendment) Act, 2006.]

³³[22. Professional or other misconduct defined

For the purposes of this Act, the expression "professional or other misconduct" shall be deemed to include any act or omission provided in any of the Schedules, but nothing in this section shall be construed to limit or abridge in any way the power conferred or duty cast on the Director (Discipline) under sub-section (1) of section 21 to inquire into the conduct of any member of the Institute under any other circumstances.]

³³ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006:-

"22. Professional misconduct defined For the purposes of this Act, the expression "professional misconduct" shall be deemed to include any act or omission specified in any of the Schedules, but nothing in this section shall be construed to limit or abridge in any way the power conferred or duty cast on the Council under sub-section (1) of section 21 to inquire into the conduct of any member of the Institute under any other circumstances."

³⁴[22A. Constitution of Appellate Authority

- (1) The Central Government shall, by notification, constitute an Appellate Authority consisting of–
 - (a) a person who is or has been a judge of a High Court, to be its Chairperson;
 - (b) two members to be appointed from amongst the persons who have been members of the Council for at least one full term and who is not a sitting member of the Council;
 - (c) two members to be nominated by the Central Government from amongst persons having knowledge and practical experience in the field of law, economics, business, finance or accountancy.
- (2) The Chairperson and other members shall be part-time members.

22B. Term of office of Chairperson and members of Authority

- (1) A person appointed as the Chairperson shall hold office for a term of three years from the date on which he enters upon his office or until he attains the age of sixty five years, whichever is earlier.
- (2) A person appointed as a member shall hold office for a term of three years from the date on which he enters upon his office or until he attains the age of sixty-two years, whichever is earlier.

22C. Allowances and conditions of service of Chairperson and members of Authority

The allowances payable to, and other terms and conditions of service of, the Chairperson and members and the manner of meeting expenditure of the Authority by the Council and such other authorities shall be such as may be specified.

22D. Procedure to be regulated by Authority

- (1) The office of the Authority shall be at Delhi.
- (2) The Authority shall regulate its own procedure.
- (3) All orders and decisions of the Authority shall be authenticated by an officer duly authorized by the Chairperson in this behalf.

22E. Officers and other staff of Authority

- (1) The Council shall make available to the Authority such officers and other staff members as may be necessary for the efficient performance of the functions of the Authority.
- (2) The salaries and allowances and conditions of service of the officers and other staff members of the Authority shall be such as may be prescribed.

³⁴ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006, and came into force w.e.f. 17.11.2006:-

“22A. Appeals

(1) Any member of the Institute aggrieved by any order of the Council imposing on him any of the penalties referred to in subsection

(4) of section 21, may within thirty days of the date on which the order is communicated to him, prefer an appeal to the High Court:

Provided that the High Court may entertain any such appeal after the expiry of the said period of thirty days, if it is satisfied that the member was prevented by sufficient cause from filing the appeal in time.

(2) The High Court may, on its own motion or otherwise, after calling for the records of any case, revise any order made by the Council under sub-section (2) or sub-section (4) of section 21 and may–

- (a) confirm, modify or set aside the order;
- (b) impose any penalty or set aside, reduce, confirm, or enhance the penalty imposed by the order;
- (c) remit the case to the Council for such further inquiry as the High Court considers proper in the circumstances of the case; or
- (d) pass such other order as the High Court thinks fit:

Provided that no order of the Council shall be modified or set aside unless the Council has been given an opportunity of being heard and no order imposing or enhancing a penalty shall be passed unless the person concerned has also been given an opportunity of being heard.

Explanation :- In this section “High Court” and “member of the Institute” have the same meanings as in section 21.”

22F. Resignation and removal of Chairperson and members

- (1) The Chairperson or a member may, by notice in writing under his hand addressed to the Central Government, resign his office:

Provided that the Chairperson or a member shall, unless he is permitted by the Central Government to relinquish his office sooner, continue to hold office until the expiry of three months from the date of receipt of such notice or until a person duly appointed as his successor enters upon his office or until the expiry of term of office, whichever is earlier.

- (2) The Chairperson or a member shall not be removed from his office except by an order of the Central Government on the ground of proved misbehaviour or incapacity after an inquiry made by such person as the Central Government may appoint for this purpose in which the Chairperson or a member concerned has been informed of the charges against him and given a reasonable opportunity of being heard in respect of such charges.

22G. Appeal to Authority

- (1) Any member of the Institute aggrieved by any order of the Board of Discipline or the Disciplinary Committee imposing on him any of the penalties referred to in sub-section (3) of section 21A and sub-section (3) of section 21B, may within ninety days from the date on which the order is communicated to him, prefer an appeal to the Authority:

Provided that the Director (Discipline) may also appeal against the decision of the Board of Discipline or the Disciplinary Committee to the Authority, if so authorised by the Council, within ninety days:

Provided further that the Authority may entertain any such appeal after the expiry of the said period of ninety days, if it is satisfied that there was sufficient cause for not filing the appeal in time.

- (2) The Authority may, after calling for the records of any case, revise any order made by the Board of Discipline or the Disciplinary Committee under subsection
- (3) of section 21A and sub-section (3) of section 21B and may -
 - (a) confirm, modify or set aside the order;
 - (b) impose any penalty or set aside, reduce, or enhance the penalty imposed by the order;
 - (c) remit the case to the Board of Discipline or Disciplinary Committee for such further enquiry as the Authority considers proper in the circumstances of the case; or
 - (d) pass such other order as the Authority thinks fit:

Provided that the Authority shall give an opportunity of being heard to the parties concerned before passing any order.]

CHAPTER VI REGIONAL COUNCILS

23. Constitution and functions of Regional Councils

- (1) For the purpose of advising and assisting it on matters concerning its functions, the Council may constitute such Regional Councils as and when it deems fit for one or more of the regional constituencies that may be specified by the Central Government under clause (a) of sub-section (2) of section 9.
- (2) The Regional Councils shall be constituted in such manner and exercise such functions as may be prescribed.

CHAPTER VII

PENALTIES

24. Penalty for falsely claiming to be a member, etc.

Any person who –

- (i) 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 practises 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.

24A. Penalty for using name of the Council, awarding degree of chartered accountancy, etc.

- (1) Save as otherwise provided in this Act, no person shall–
 - (i) use a name or the common seal which is identical with the name or the common seal of the Institute or so nearly resembles it as to deceive or as is likely to deceive the public;
 - (ii) award any degree, diploma or certificate or bestow any designation which indicates or purports to indicate the position or attainment of any qualification or competence similar to that of a member of the Institute; or
 - (iii) seek to regulate in any manner whatsoever the profession of chartered accountants.
- (2) Any person contravening the provisions of subsection (1) shall, without prejudice to any other proceedings which may be taken against him, be punishable with fine which may extend on first conviction 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.

³⁵[(3)]

25. Companies not to engage in accountancy

- (1) No company, whether incorporated in India or elsewhere, shall practise as chartered accountants.
- (2) If any company contravenes the provisions of sub-section (i), then, without prejudice to any other proceedings which may be taken against the company, every director, manager, secretary and any other officer thereof who is knowingly a party to such contravention shall be punishable with fine which may extend on first conviction to one thousand rupees, and on any subsequent conviction to five thousand rupees.

26. Unqualified persons not to sign documents

- (1) No person other than a member of the Institute shall sign any document on behalf of a chartered accountant in practice or a firm of such chartered accountants in his or its professional capacity.

³⁶[(2) Any person who contravenes the provisions of sub-section (1) shall, without prejudice to any other

³⁵ The following sub-section (3) omitted by the Chartered Accountants (Amendment) Act, 2006 w.e.f. 8.8.2006:-

“(3) Nothing contained in this section shall apply to any University established by law or to any body affiliated to the Institute.”

³⁶ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006:-

“(2) Any person contravening the provisions of sub-section (1) shall, without prejudice to any other proceedings, which may be taken against him, be punishable with fine which may extend on first conviction 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.”

proceedings, which may be taken against him, be punishable on first conviction with a fine not less than five thousand rupees but which may extend to one lakh rupees, and in the event of a second or subsequent conviction with imprisonment for a term which may extend to one year or with fine not less than ten thousand rupees but which may extend to two lakh rupees or with both.]

27. Maintenance of branch offices

- (1) 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.

- (2) 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.

28. Sanction to prosecute

No person shall be prosecuted under this Act except on a complaint made by or under the order of the Council or of the Central Government.

³⁷[CHAPTER VIIA

QUALITY REVIEW BOARD

28A. Establishment of Quality Review Board

- (1) The Central Government shall, by notification, constitute a Quality Review Board consisting of a Chairperson and ten other members.
- (2) The Chairperson and members of the Board shall be appointed from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy.
- (3) Five members of the Board shall be nominated by the Council and other five members shall be nominated by the Central Government.

28B. Functions of Board

The Board shall perform the following functions, namely :—

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

28C. Procedure of Board

The Board shall meet at such time and place and follow in its meetings such procedure as may be specified.

28D. Terms and conditions of services of Chairperson and members of Board and its expenditure

- (1) The terms and conditions of service of the Chairperson and the members of the Board, and their allowances shall be such as may be specified.
- (2) The expenditure of the Board shall be borne by the Council.]

³⁷ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006.

CHAPTER VIII

MISCELLANEOUS

29. Reciprocity

- (1) Where any country, specified by the Central Government in this behalf by notification in the Official Gazette, prevents persons of Indian domicile from becoming members of any institution similar to the Institute of Chartered Accountants of India or from practising the profession of accountancy or subjects them to unfair discrimination in that country, no subject of any such country shall be entitled to become a member of the Institute or practise the profession of accountancy in India.
- (2) Subject to the provisions of sub-section (1), the Council may prescribe the conditions, if any, subject to which foreign qualifications relating to accountancy shall be recognised for the purposes of entry in the Register.

³⁸[29A. Power of Central Government to make rules

- (1) The Central Government may, by notification, make rules to carry out the provisions of this Act.
- (2) In particular, and without prejudice to the generality of the foregoing powers, such rules may provide for all or any of the following matters, namely :—
 - (a) the manner of election and nomination in respect of members to the Council under sub-section (2) of section 9;
 - (b) the terms and conditions of service of the Presiding Officer and Members of the Tribunal, place of meetings and allowances to be paid to them under sub-section (3) of section 10B;
 - (c) the procedure of investigation under sub-section (4) of section 21;
 - (d) the procedure while considering the cases by the Disciplinary Committee under sub-section (2), and the fixation of allowances of the nominated members under sub-section (4) of section 21B;
 - (e) the allowances and terms and conditions of service of the Chairperson and members of the Authority and the manner of meeting expenditure by the Council under section 22C;
 - (f) the procedure to be followed by the Board in its meetings under section 28C; and
 - (g) the terms and conditions of service of the Chairperson and members of the Board under sub-section (1) of section 28D.]

30. Power to make regulations

- (1) The Council may, by notification in the "Gazette of India", make regulations for the purpose of carrying out the objects of this Act. ³⁹[.....]
- (2) In particular, and without prejudice to the generality of the foregoing power, such regulations may provide for all or any of the following matters :—
 - (a) the standard and conduct of examinations under this Act;
 - (b) the qualifications for the entry of the name of any person in the Register as a member of the Institute;
 - (c) the conditions under which any examination or training may be treated as equivalent to the examination and training prescribed for members of the Institute;
 - (d) the conditions under which any foreign qualification may be recognised;
 - (e) the manner in which and the conditions subject to which applications for entry in the Register may be made;

³⁸ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

³⁹ The words "and a copy of such regulations shall be sent to each member of the Institute" omitted by the Chartered Accountants (Amendment) Act, 2006 w.e.f. 8.8.2006

- (f) the fees payable for membership of the Institute and the annual fees payable by associates and fellows of the Institute in respect of their certificates;
 - (g) the manner in which elections to ⁴⁰[.....] the Regional Councils may be held;
 - (h) the particulars to be entered in the Register;
 - (i) the functions of Regional Councils;
 - (j) the training of articled and audit ⁴¹[assistants], the fixation of limits within which premia may be charged from articled ⁴²[assistants] and the cancellation of articles and termination of audit service for misconduct or for any other sufficient cause;
 - (k) the regulation and maintenance of the status and standard of professional qualifications of members of the Institute;
 - (l) the carrying out of research in accountancy;
 - (m) the maintenance of a library and publication of books and periodicals on accountancy;
 - (n) the management of the property of the Council and the maintenance and audit of its accounts;
 - (o) the summoning and holding of meetings of the Council, the times and places of such meetings, the conduct of business thereat and the number of members necessary to form a quorum;
 - (p) the powers, duties and functions of the President and the Vice-President of the Council;
 - (q) the functions of the Standing and other Committees and the conditions subject to which such functions shall be discharged;
 - (r) the terms of office, and the powers, duties and functions of the Secretary and other officers and servants of the Council; ⁴³[and]
 - ⁴⁴[(s)]
 - (t) any other matter which is required to be or may be prescribed under this Act.
- (3) All regulations made by the Council under this Act shall be subject to the condition of previous publication and to the approval of the Central Government.
- (4) Notwithstanding anything contained in subsections (1) and (2) the Central Government may frame the first regulations for the purposes mentioned in this section, and such regulations shall be deemed to have been made by the Council, and shall remain in force from the date of the coming into force of this Act, until they are amended, altered or revoked by the Council.

30A. Powers of Central Government to direct regulations to be made or to make or amend regulations

- (1) Where the Central Government considers it expedient so to do, it may, by order in writing, direct the Council to make any regulations or to amend or revoke any regulations already made within such period as it may specify in this behalf.
- (2) If the Council fails or neglects to comply with such order within the specified period, the Central Government may make the regulations or amend or revoke the regulations made by the Council, as the case may be, either in the form specified in the order or with such modifications thereof as the Central Government thinks fit.

⁴⁰ The words “the Council and” omitted by the Chartered Accountants (Amendment) Act, 2006 w.e.f. 8.8.2006

⁴¹ Substituted, for the word, “clerks” by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

⁴² Substituted, for the word, “clerks” by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006.

⁴³ Inserted by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8.8.2006

⁴⁴ The following clause omitted by the Chartered Accountants (Amendment) Act, 2006 w.e.f. 8.8.2006:-
“(s) the exercise of disciplinary powers conferred by this Act; and”

⁴⁵[30B. Rules, regulations and notifications to be laid before Parliament

Every rule and every regulation made and every notification issued under this Act shall be laid, as soon as may be after it is made or issued, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule, regulation or notification, or both Houses agree that the rule, regulation or notification should not be made or issued, the rule, regulation or notification, shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule, regulation or notification.]

⁴⁶[30C. Power of Central Government to issue directions

- (1) In the event of non-compliance by the Council of any provisions of this Act, the Central Government may give to the Council such general or special directions as it considers necessary to ensure compliance and the Council shall, in the discharge of its functions under this Act, comply with such directions.
- (2) If, in the opinion of the Central Government, the Council has persistently made default in giving effect to the directions issued under sub-section (1), it may, after giving an opportunity of being heard to the Council, by notification, dissolve the Council, whereafter a new Council shall be constituted in accordance with the provisions of this Act with effect from such date as may be decided by the Central Government:

Provided that the Central Government shall ensure constitution of a new Council in accordance with the provisions of this Act within a period of one year from the date of its dissolution.

- (3) Where the Central Government has issued a notification under sub-section (2) dissolving the Council, it shall, pending the constitution of a new Council in accordance with the provisions of this Act, nominate any person or body of persons not exceeding five members to manage the affairs and discharge all or any of the functions of the Council under this Act.

30D. Protection of action taken in good faith

No suit, prosecution or other legal proceeding shall lie against the Central Government or the Council or the Authority or the Disciplinary Committee or the Tribunal or the Board or the Board of Discipline or the Disciplinary Directorate or any officer of that Government, Council, Authority, Disciplinary Committee, Tribunal, Board, Board of Discipline or the Disciplinary Directorate, for anything which is in good faith done or intended to be done under this Act or any rule, regulation, notification, direction or order made thereunder.

30E. Members, etc., to be public servants

The Chairperson, Presiding Officer, members and other officers and employees of the Authority, Disciplinary Committee, Tribunal, Board, Board of Discipline or the Disciplinary Directorate shall be deemed to be public servants within the meaning of section 21 of the Indian Penal Code.(No. 45 of 1860)]

⁴⁵ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 8. 8. 2006:-

“30B. *Laying of regulations*

Every regulation made under this Act shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the regulation, or both Houses agree that the regulation should not be made, the regulation shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under the regulation.”

⁴⁶ Inserted by the Chartered Accountants (Amendment) Act, 2006. However, section 30C came into force w.e.f. 8.8.2006, whereas sections 30D and 30E came into force w.e.f. 17.11.2006.

31. Construction of references

Any reference to a chartered accountant or a registered accountant or a certified or qualified auditor in any other law or in any document whatsoever shall be construed as a reference to a chartered accountant in practice within the meaning of this Act.

32. Act not to affect right of accountants to practise as such in Acceding States

Nothing contained in this Act shall affect the right of any person who, at the commencement of this Act, is entitled to engage himself in the practice of accountancy in any Part B State under any law in force in that State, to continue to engage himself in the practice of accountancy in that State after the commencement of this Act.

⁴⁷[THE FIRST SCHEDULE

⁴⁷ Substituted, for the following, by the Chartered Accountants (Amendment) Act, 2006 and came into force w.e.f. 17.11.2006:-

“[THE FIRST SCHEDULE

(See Sections 21(4) and 22)

PART I

Professional misconduct in relation to chartered accountants in practice

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

- (1) allows any person to practise 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 himself;
- (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;

Explanation :— In this item “partner” includes a person residing outside India with whom a chartered accountant in practice has entered into partnership which is not in contravention of item (4) of this Part.

- (3) accepts or agrees to accept any part of the profits of the professional work of a lawyer, auctioneer, broker, or other agent who is not a member of the Institute;
- (4) enters into partnership with any person other than a chartered accountant in practice or a person resident without India 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 recognised by the Central Government or the Council for the purpose of permitting such partnerships, provided that the chartered accountant shares in the fees or profits of the business of the partnership both within and without India;
- (5) secures, either through the services of a person not qualified to be his partner or by means which are not open to a chartered accountant, any professional business;
- (6) solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means;
- (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 recognised by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognised by the Central Government or may be recognised by the Council;
- (8) accepts a position as auditor previously held by another chartered accountant or a restricted state auditor without first communicating with him in writing;
- (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, in respect of such appointment have been duly complied with;
- (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 in cases which are permitted under any regulations made under this Act;
- (11) engages in any business or occupation other than the profession of chartered accountants unless permitted by the Council so to engage:
Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company, unless he or any of his partners is interested in such company as an auditor;
- (12) accepts a position as auditor previously held by some other chartered accountant or a restricted state auditor in such conditions as to constitute undercutting;

[See sections 21(3), 21A(3) and 22]

(13) allows a person not being a member of the Institute 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.

PART II

Professional misconduct in relation to members of the Institute in service

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person—

- (a) pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by the member;
- (b) 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;
- (c) discloses confidential information acquired in the course of his employment except as and when required by law or except as permitted by the employer.

PART III

Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he—

- (1) includes in any statement, return or form to be submitted to the Council any particulars knowing them to be false;
- (2) not being a fellow styles himself as a fellow;
- (3) does not supply the information called for, or does not comply with the requirements asked for, by the Council or any of its Committees.

THE SECOND SCHEDULE

(See Sections 21(5) and 22)

PART I

Professional misconduct in relation to chartered accountants in practice requiring action by a High Court A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he—

- (1) discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of his client or otherwise than as required by any law for the time being in force;
- (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;
- (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;
- (4) expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has a substantial interest, unless he discloses the interest also in his report;
- (5) 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;
- (6) 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;
- (7) is grossly negligent in the conduct of his professional duties;
- (8) 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;
- (9) fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances;
- (10) fails to keep moneys of his client in a separate banking account or to use such moneys for purposes for which they are intended.

PART II

Professional misconduct in relation to members of the Institute generally requiring action by a High Court A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he—

- (i) contravenes any of the provisions of this Act or the regulations made thereunder;
- (ii) is guilty of such other act or omission as may be specified by the Council in this behalf, by notification in the Gazette of India.

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PART I

Professional misconduct in relation to chartered accountants in practice

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

- (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;
- (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.

Explanation :- In this item, “partner” includes a person residing outside India with whom a chartered accountant in practice has entered into partnership which is not in contravention of item (4) of this Part;

- (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:

Provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share commission or brokerage in the fees, with a member of such professional body or other person having qualifications, as is referred to in item (2) of this Part;

- (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 recognised by the Central Government or the Council for the purpose of permitting such partnerships;
- (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:

Provided that nothing herein contained shall be construed as prohibiting any arrangement permitted in terms of items (2), (3) and (4) of this Part;

- (6) solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means:

Provided that nothing herein contained shall be construed as preventing or prohibiting–

- (i) any chartered accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or
- (ii) a member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence;
- (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 recognised 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 recognised by the Central Government or may be recognised by the Council:

Provided that a member in practice may advertise through a write up setting out the services provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council;

- (8) accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing;
- (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 (No. 1 of 1956) in respect of such appointment have been duly complied with;
- (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;
- (11) engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage:

Provided that nothing contained herein shall disentitle a chartered accountant from being a director of a company (not being a managing director or a whole time director) unless he or any of his partners is interested in such company as an auditor;
- (12) 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.

PART II

Professional misconduct in relation to members of the Institute in service

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he being an employee of any company, firm or person—

- (1) pays or allows or agrees to pay directly or indirectly to any person any share in the emoluments of the employment undertaken by him;
- (2) 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.

PART III

Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional 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;
- (3) while inviting professional work from another chartered accountant or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

PART IV

Other misconduct in relation to 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 by 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.

THE SECOND SCHEDULE

[See sections 21(3), 21B(3) and 22]

PART I

Professional misconduct in relation to chartered accountants in practice

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

- (1) discloses information acquired in the course of 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;
- (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;
- (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;
- (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;
- (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;
- (6) fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;
- (7) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
- (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;
- (9) fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances;
- (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.

PART II

Professional misconduct in relation to members of the Institute generally

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;
- (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;
- (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;
- (4) defalcates or embezzles moneys received in his professional capacity.

PART III

Other misconduct in relation to 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 is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.]

Annexure II

Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007

In exercise of the powers conferred by clauses (c) and (d) of sub-section (2) of section 29A, read with sub-section (4) of section 21 and sub-sections (2) and (4) of section 21B of the Chartered Accountants Act, 1949 (38 of 1949), the Central Government hereby makes the following rules, namely:-

CHAPTER I

Preliminary

1. Short title and commencement.-

- (1) These rules may be called the Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct and Conduct of Cases) Rules, 2007.
- (2) They shall come into force from the date of their publication in the Official Gazette.

2. Definitions and Interpretations.-

- (1) In these rules, unless the context otherwise requires,-
 - (a) "Act" means the Chartered Accountants Act, 1949 (38 of 1949);
 - (b) "Committee" means the Disciplinary Committee or Committees constituted by the Council under sub-section (1) of section 21B of the Act;
 - (c) "Director" means the person appointed as Director (Discipline) by the Council under clause (b) of sub-section (1) of section 16 of the Act;
 - (d) "Directorate" means the Disciplinary Directorate established under sub-section (1) of section 21 of the Act;
 - (e) "Firm" means a firm registered with the Institute under the Regulations;
 - (f) "Institute" means the Institute of Chartered Accountants of India constituted under the Act;
 - (g) "Member" means an associate or fellow member of the Institute and includes a person who was a member of the Institute on the date of the alleged misconduct, although he has ceased to be a member of the Institute at the time of filing the complaint, initiation of the inquiry or thereafter;
 - (h) "Presiding Officer" means the Presiding Officer of the Board of Discipline or Committee, as the case may be;
 - (i) "Professional Address" means- (i) the last registered address where a member is carrying on his profession (or when he is carrying on his profession at more than one place, the principal place); or
 - (ii) the last registered place of employment or at his option, the place of his residence (if the member is employed); or
 - (iii) the last registered place of residence, (if the member neither carried on the profession nor is employed); or

- (iv) the last registered overseas address or at his option, the place of residence in India which shall be deemed to be the professional address for the purposes of these rules.
- (j) "Regulations" means the Chartered Accountants Regulations, 1988, made under the Act, as amended from time to time;
- (k) "Respondent" means a member or a firm against whom the complaint or information has been received;
- (l) "Schedule" means any Schedule or Schedules annexed to the Act;
- (2) Words and expressions used but not defined in these rules and defined in the Chartered Accountants Act, 1949 (38 of 1949) shall have the same meanings respectively assigned to them in that Act.

CHAPTER II

Procedures of Investigation related to Complaints and Information

3 . Procedure for filing complaint.-

- (1) A complaint under section 21 of the Act against a member or a firm shall be filed in Form I, in triplicate before the Director in person or by post or courier:

Provided that the complaint sent by post or courier under this sub-rule shall be deemed to have been presented to the Director on the day on which it is received in the Directorate.

- (2) A complaint filed by or on behalf of the Central Government or any State Government, shall be authorized by an officer holding a post not below the rank of a Joint Secretary or equivalent and shall be signed by an officer holding a post not below the rank of an Under Secretary or equivalent in the Central or State Government, as the case may be.
- (3) A complaint filed by or on behalf of any statutory authority, such as Reserve Bank of India or Securities and Exchange Board of India, shall be authorised by an officer holding a post equivalent to the post of Joint Secretary in the Government of India and shall be signed by an officer holding a post not below the rank of an Under Secretary or equivalent in the Central or State Government, as the case may be.
- (4) A complaint filed by or on behalf of a company or a firm, shall be accompanied by a resolution, duly passed by the Board of Directors of the company or the partners of the firm, as the case may be, specifically authorizing an officer or a person to make the complaint on behalf of the company or the firm.

Explanation.-In the case of a bank or financial institution, the general resolution or power of attorney authorizing an officer holding a particular position to file complaints on behalf of the bank or financial institution, shall be deemed to be the specific resolution passed by the bank or financial institution concerned, for the purposes of these rules.

- (5) In case of complaints filed by any Government, statutory authority, bank or financial institution, a change in the name of complainant at any later stage, shall be duly supported by a specific authorization made by an officer holding a post equivalent to that of the original complainant.
- (6) Every complaint received by the Directorate shall be acknowledged by ordinary post together with an acknowledgement number.

4. Fee for filing complaint.-

- (1) Every complaint, other than a complaint filed by or on behalf of the Central Government or any State Government or any statutory authority, shall be accompanied by a fee as prescribed by the Council through regulations.

- (2) The fee shall be paid in the form of a demand draft drawn on any bank in India in favour of the Institute of Chartered Accountants of India payable at the place where the Directorate is situated.
- (3) The fee once paid shall not be refunded:
Provided that no additional fee shall be payable if the complaint is resubmitted after rectification of defect under sub-rule (5) of rule 5.

5. Registration of complaint.-

- (1) The Director or an officer or officers authorized by the Director, shall endorse on every complaint the date on which it is received or presented and the Director or the officer or officers so authorized, shall sign on each such endorsement.
- (2) The Director or an officer or officers authorized by him shall scrutinize the complaints so received.
- (3) If, on scrutiny, the complaint is found to be in order, it shall be duly registered and a unique reference number allotted to it, which shall be quoted in all future correspondence, and shall be dealt with in the manner as prescribed in Chapter III of these rules.
- (4) If the subject matter of a complaint is, in the opinion of the Director, substantially the same as or has been covered by any previous complaint or information received and is under process or has already been dealt with, he shall take any of the following action, as the case may be,-
 - (a) if such a previous complaint is still under the examination of the Director, then the new complaint may be clubbed with the previous complaint and in such case the fact may be conveyed to the first complainant, new complainant and respondent respectively.
 - (b) if prima facie opinion has been formed by the Director in such a previous complaint and the case is pending before the Board of Discipline or the Committee, then the Director shall bring the new complaint before the Board of Discipline or the Committee, as the case may be, and the latter shall either club the complaint with the previous complaint or close it or ask the Director to deal with it as a separate complaint, as it deems fit.
 - (c) if orders have already been passed by the Board of Discipline or the Committee on such a previous complaint, then the Director shall present the new complaint before the Board of Discipline for its closure:
Provided that even in case where the new complaint is clubbed with a previous complaint under this sub-rule, only the first complainant would be the complainant for the purposes of investigation under these rules.
- (5) If, the complaint, on scrutiny, is found to be defective, including the defects of technical nature, the Director may allow the complainant to rectify the same in his presence or may return the complaint for rectification and resubmission within such time as he may determine.
- (6) If, the complainant fails to rectify the defect or defects within the time allowed under sub-rule (5), the Director shall form the opinion that there is no prima facie case and present the complaint before the Board of Discipline for its closure.
- (7) The Board of Discipline may, after the presentation of the complaint by the Director under sub-rule (6), either,-
 - (a) agree with the opinion of the Director and pass an order for the closure; or
 - (b) disagree with the opinion of the Director and advise him to further investigate the matter.

6. Withdrawal of a complaint.- The Director, on receipt of a letter of withdrawal of a complaint by the complainant, shall place the same before the Board of Discipline or the Committee, as the case may be, and the Board of Discipline or Committee, as the case may be, may, if it is of the view that the circumstances so warrant, permit the withdrawal, at any stage, including before or

after registration of the complaint:

Provided that in case the Director has not yet formed his prima facie opinion on such a complaint, he shall place the same before the Board of Discipline, and the Board of Discipline may, if it is of the view that the circumstances so warrant, permit the withdrawal.

7. Information.-

- (1) Any written information containing allegation or allegations against a member or a firm, received in person or by post or courier, by the Directorate, which is not in Form I under sub-rule (1) of rule 3, shall be treated as information received under section 21 of the Act and shall be dealt with in accordance with the provisions of these rules.
- (2) On receipt of such an information, the sender of the information, including the Central Government, any State Government or any statutory authority, shall be, in the first instance, asked whether he or it would like to file a complaint in Form I apprising him of, the following information,-
 - (a) that relatively longer time is taken for disposal of any information than the complaint;
 - (b) that the person giving information will not have the right to be represented during the investigation or hearing of the case;
 - (c) that the Institute will be under no obligation to inform the sender the information of the progress made in respect of the information received under sub-rule (1) including the final orders:

Provided that where the sender of the information is the Central Government, any State Government or any statutory authority, a copy of final order shall be sent to such sender.

- (3) An anonymous information received by the Directorate will not be entertained by the Directorate.

CHAPTER III

Procedure of Investigation

8. Procedure to be followed by Director on a complaint.-

- (1) The Director or an officer or officers authorized by the Director, within sixty days of the receipt of a complaint under rule 3, shall,-
 - (a) if the complaint is against an individual member, send particulars of the acts of commission or omission alleged or a copy of the complaint, as the case may be, to that member at his professional address;
 - (b) if the complaint is against a firm, send particulars of the acts of commission or omission alleged or a copy of the complaint, as the case may be, to the firm at the address of its head office, as entered last in the Register of Offices and Firms maintained by the Institute, with a notice calling upon the firm to disclose the name or names of the member or members concerned and to send particulars of acts of commission or omission or a copy of the complaint, as the case may be, to such members:

Provided that while disclosing the name or names of the member or members, the firm shall also send a declaration signed or, as the case may be, jointly signed by the member or members concerned to the effect that he or she or they shall be responsible for answering the complaint and that the particulars of acts of commission or omission or the copy of the complaint sent to the firm by the Director had been duly received by him, her or them.

Explanation.-A notice to the firm shall be deemed to be a notice to all the members who are partners or employees of that firm as on the date of registration of the complaint.

- (2) A member whose name is disclosed by the firm shall be responsible for answering the complaint, provided such a member was associated, either as partner or employee, with the firm, against which the complaint has been filed, at the time of occurrence of the alleged misconduct:

Provided that if no member, whether erstwhile or present, of the firm, own responsibility for the allegation or allegations made against the firm, then the firm as a whole shall be responsible for answering the allegation or allegations and, as such, all the members who were partners or employees of that firm, as on the date of occurrence of the alleged misconduct, shall be responsible for answering the allegation or allegations as contained in the complaint.

- (3) A member who has been informed of the complaint filed against him (hereinafter referred to as the respondent) shall, within 21 days of the service of a copy of the complaint, or within such additional time, not exceeding thirty days, as may be allowed by the Director, forward to the Director, a written statement in his defence.
- (4) On receipt of the written statement, if any, the Director may send a copy thereof to the complainant and the complainant shall, within 21 days of the service of a copy of the written statement, or within such additional time, not exceeding thirty days, as may be allowed by the Director, forward to the Director, his rejoinder on the written statement.
- (5) On perusal of the complaint, the respondent's written statement, if any, and rejoinder of the complainant, if any, the Director may call for such additional particulars or documents connected therewith either from the complainant or the respondent or any third party or parties, as he may consider appropriate:

Provided that if no reply is sent by the respondent within the time allowed under sub-rule (3) or by the complainant within the time allowed under sub-rule (4), the Director shall presume that the respondent or the complainant, as the case may be, have nothing further to state and take further action as provided under this Chapter.

9. Examination of the Complaint.-

- (1) The Director shall examine the complaint, written statement, if any, rejoinder, if any, and other additional particulars or documents, if any, and form his prima facie opinion as to whether the member or the firm is guilty or not of any professional or other misconduct or both under the First Schedule or the Second Schedule or both.
- (2) (a) Where the Director is of the prima facie opinion that,-
- (i) the member or the firm is guilty of any misconduct under the First Schedule, he shall place his opinion along with the complaint and all other relevant papers before the Board of Discipline;
 - (ii) the member or the firm is guilty of misconduct under the Second Schedule or both the First and Second Schedules, he shall place his opinion along with the complaint and all other relevant papers before the Committee.
- (b) If the Board of Discipline or the Committee, as the case may be, agrees with the prima facie opinion of the Director under clause (a) above, then the Board of Discipline or the Committee may proceed further under Chapter IV or V respectively.
- (c) If the Board of Discipline or the Committee, as the case may be, disagrees with the prima facie opinion of the Director under clause (a) above, it shall either close the matter or advise the Director to further investigate the matter.
- (3) Where the Director is of the prima facie opinion that the member or the firm is not guilty of any misconduct either under the First Schedule or the Second Schedule, he shall place the matter before the Board of Discipline, and the Board of Discipline,-
- (a) if it agrees with such opinion of the Director, shall pass order, for closure.
 - (b) if it disagrees with such opinion of the Director, then it may either proceed under

chapter IV of these rules, if the matter pertains to the First Schedule, or refer the matter to the Committee to proceed under Chapter V of these rules, if the matter pertains to the Second Schedule or both the Schedules, or may advise the Director to further investigate the matter.

- (4) The Director shall, after making further investigation as advised by the Board of Discipline under sub-rule (2) or (3) of this rule or by the Committee under sub-rule (2), shall further proceed under this rule.

10. Mode of Sending Notice.-

- (1) Every notice or letter issued by the Director, Board of Discipline, or the Committee under these rules shall be sent to the member or the firm or any other person, by registered post with acknowledgement due or speed post, except where specified otherwise in any rule.
- (2) If any notice or letter is returned unserved with an endorsement to the effect that the addressee had refused to accept the notice or letter, the notice or letter shall be deemed to have been served.
- (3) If the notice or letter is returned with an endorsement to the effect that the addressee cannot be found at the address given, the Director shall ask the complainant or any other person who may be in a position to provide another address of the member or firm or person whose address is found to be not correct, and on production of the correct address, a fresh notice or letter shall be issued at such address.
- (4) Where the notice or letter is returned under sub-rule (3), it may be served by fixing a copy thereof in some conspicuous place at the professional address or residence of the respondent which was last registered with the Institute or in such other manner as the Board of Discipline may think fit and such service shall be deemed to be sufficient service for the purposes of these rules.

11. Certain provisions relating to complaint also to be applicable for information relating to misconduct of members.- The procedure laid down for dealing with complaints in sub-rule (6) of rule 3, sub-rules (1), (2), (3) and (4) of rule 5, sub-rules (1), (2), (3) and (5) of rule 8, rule 9 and rule 10 shall also apply to information received by the Director relating to misconduct of members.
12. Time limit on entertaining complaint or information.- Where the Director is satisfied that there would be difficulty in securing proper evidence of the alleged misconduct, or that the member or firm against whom the information has been received or the complaint has been filed, would find it difficult to lead evidence to defend himself or itself, as the case may be, on account of the time lag, or that changes have taken place rendering the inquiry procedurally inconvenient or difficult, he may refuse to entertain a complaint or information in respect of any misconduct made more than seven years after the same was alleged to have been committed and submit the same to the Board of Discipline for taking decision on it under sub-section (4) of section 21A of the Act.

CHAPTER IV

Board of Discipline

13. Functioning of Board of Discipline.-

- (1) All questions which come up before the Board of Discipline shall be decided by a majority of the members present and voting, and in the event of an equality of votes, the Presiding Officer or in his absence, the person presiding, shall have a second or casting vote.
- (2) The quorum for any meeting of the Board of Discipline shall be two members.
- (3) In the event of the Presiding Officer not being able to attend a meeting of the Board of Discipline, the member of the Council appointed under clause (b) of sub-section (1) of section 21A of the Act shall act as the Presiding Officer.

14. Procedure to be followed by the Board of Discipline.-

- (1) The Board of Discipline shall follow summary disposal procedure in dealing with all cases before it, as laid down in this Chapter.
- (2) If the Board of Discipline decides to proceed further under clause (b) of sub-rule (2) of rule 9 or under clause (b) of sub-rule (3) of rule 9, it shall expeditiously cause to deliver to the respondent and the complainant, a copy each of the following:-
 - (a) prima facie opinion formed by the Director; and
 - (b) particulars or documents relied upon by the Director, if any, during the course of formulation of prima facie opinion.
- (3) The Board of Discipline shall inform the respondent to file a written statement, within such time as may be specified:

Provided that the Board of Discipline may give him additional time for submitting his written statement on application by the respondent on his adducing sufficient reasons to the satisfaction of the Board of Discipline for seeking additional time:

Provided further that such additional time shall not be given more than once and if the respondent still does not submit a written statement, the Board of Discipline shall presume that he has no further submissions to make and shall proceed to decide the case on merits.

- (4) The respondent shall send a copy of his written statement, along with supporting documents, to the Director and the complainant within the stipulated time.
- (5) The complainant or the Director may, after receipt of the written statement, submit a rejoinder to the Board of Discipline, with a copy to the respondent, along with supporting documents, if any.
- (6) The Presiding Officer of the Board of Discipline shall fix a date, hour and place of hearing, which shall not ordinarily be later than 45 days from the date of receipt of prima facie opinion and the Board of Discipline shall cause a notice to be sent of such date, hour and place to the Director, respondent and complainant and require them to appear before it in person to make oral submissions, if any.

Explanation.-For the purpose of this rule, the appearance includes, unless and otherwise directed, appearance by an advocate or through any authorized representative, who may be a Chartered Accountant, Cost Accountant or Company Secretary.

- (7) On the date of hearing, if the respondent, in spite of the service of notice, under sub-rule (6), does not appear either in person or through his authorized representative, the Board of Discipline may proceed ex-parte and pass such orders as it may think fit or direct fresh notice to be served.
- (8) The Board of Discipline may, on such terms as it thinks fit, and at any stage of the proceedings, adjourn the hearing:

Provided that such adjournment shall not be given more than once at any stage of the proceedings.

- (9) The Board of Discipline shall consider the written representations, including the written statements, rejoinder and supporting documents, and the oral submission, if any made by the Director, the complainant and the respondent, and arrive at a finding on whether the respondent is guilty or not of any professional or other misconduct.

15. Orders of the Board of Discipline.-

- (1) On arriving at a finding under sub-rule (9) of rule 14 that the respondent is guilty of professional or other misconduct, the Board of Discipline shall give the respondent an opportunity to be heard before passing any order under sub-section (3) of section 21A of the Act:

Provided that if the respondent does not appear before the Board of Discipline at the time

directed to do so when given such an opportunity to be heard, the Board of Discipline shall presume that he has nothing more to represent before it and shall pass orders under sub-section (3) of section 21A of the Act.

- (2) On arriving at a finding under sub-rule (9) of rule 14 that the respondent is not guilty of professional or other misconduct, the Board of Discipline shall pass orders closing the case.
- (3) The Board of Discipline shall send, free of charge, to the Director, respondent and the complainant, a certified copy of the final order.

CHAPTER V

Disciplinary Committee

16. Constitution and functioning of Committee.-

- (1) The Council may constitute a Committee and more than one Committee, if it considers necessary which may be located in one or more Regional Headquarters:

Provided that at least one Committee shall function at the place where the Directorate is situated.

- (2) All questions which come up before the Committee shall be decided by a majority of the members present and voting, and in the event of an equality of votes, the Presiding Officer or in his absence, the person presiding, shall have a second or casting vote.
- (3) The quorum for meeting of the Committee shall be three members, of which at least one shall be a member nominated by the Central Government under sub-section (1) of section 21B of the Act.
- (4) In the event of the Presiding Officer not being able to attend a meeting of the Committee, the senior most member amongst the members nominated by the Central Government under sub-section (1) of section 21B of the Act shall act as the Presiding Officer.

Explanation.-The seniormost member is the member who has been nominated earlier by the Central Government, and in case both the members are nominated on the same date, then the Central Government shall indicate the name of the seniormost member, either at the time of nominating the members or on a written request for the same from the Secretary of the Institute.

- (5) The Presiding Officer of the Committee constituted at place where the Directorate is situated, wherever considered appropriate, may transfer a matter from one Committee to another.
- (6) The Committee shall, subject to the other provisions of the Act and these rules, regulate its own procedure for matters not covered under this Chapter.

17. Allowances to the members nominated by the Central Government.-

- (1) The members of the Committee nominated by the Central Government would be paid Rs. 1000/- as allowance for each day of sitting:

Provided that if such a member is holding position under the Central Government or State Government or any statutory authority, he would be not be eligible for any such allowances:

Provided further that the Central Government may revise the allowances from time to time, through notification in the Official Gazette.

Explanation.-For the purpose of this rule, holding position under the Central Government shall also include a person holding position under the Comptroller and Auditor General of India, Reserve Bank of India or any other organization under or controlled by Government of India, and holding position under a State Government shall also include holding position in an organization under or controlled by the State Government.

- (2) The Presiding Officer and other Members of the Committee, while on tour, shall be entitled to the travelling allowance and daily allowance as admissible to them in their official capacity and in case the member is not a Government Servant, he shall be entitled to the travelling allowance and daily allowance as admissible to an officer holding a post carrying a scale of pay of a Joint Secretary to the Government of India.

18. Procedure to be followed by the Committee.-

- (1) The Committee shall be guided by the principles of natural justice and shall follow the procedure in dealing with all cases before it, as laid down in this Chapter.
- (2) If the Committee decides to proceed further under clause (b) of sub-rule (2) of rule 9 or if it receives a reference from Board of Discipline under clause (b) of sub-rule (3) of rule 9, it shall expeditiously cause to deliver to the respondent and the complainant, a copy each of the following,-

- (a) prima facie opinion formed by the Director; and
- (b) particulars or documents relied upon by the Director, if any, during the course of formulation of prima facie opinion.

- (3) The Committee shall inform the respondent, as the case may be to file a written statement, within such time as may be specified:

Provided that the Committee may give him additional time for submitting his written statement, on application by the respondent on his adducing sufficient reasons to the satisfaction of the Committee for seeking additional time:

Provided further that such additional time shall not be given more than once and if the respondent still does not submit a written statement, the Committee shall presume that he has no further submissions to make and shall proceed to decide the case on merits.

- (4) The respondent shall send a copy of his written statement, along with supporting documents and a list of witnesses, to the Director and the complainant within the stipulated time.
- (5) The complainant or the Director may, after receipt of the written statement, submit a rejoinder to the Committee, with a copy to the respondent, along with supporting documents, if any.
- (6) The Presiding Officer of the Committee shall fix a date, hour and place of hearing, which shall not ordinarily be later than 45 days from the date of receipt of prima facie opinion and the committee shall cause a notice to be sent of such date, hour and place to the Director, respondent and complainant and require them to appear before it in person to make oral submissions, if any.

Explanation.-For the purpose of this rule, the appearance includes, unless and otherwise directed, appearance by an advocate or through any authorized representative, who may be a Chartered Accountant, Cost Accountant or Company Secretary.

- (7) During the first hearing, the Committee shall read out the charge or charges to the respondent along with the summary of prima facie opinion arrived at by the Director, and ask the respondent whether he pleads guilty to the charge or charges made against him:

Provided that if the respondent does not appear for the first hearing even after one adjournment, the reading out of charge or charges along with the summary of prima facie opinion shall be made in his absence and the case proceeded with in accordance with the provisions of this Chapter.

- (8) If the respondent pleads guilty, the Committee shall record the plea and take action as per provisions under rule 19.
- (9) If the respondent does not plead guilty, then the Committee shall fix a date for examination of witnesses and production of documents.

- (10) The Committee may, on application of the Director, issue notice for appearance to any of his witnesses directing him to attend or to produce any other document or material evidence.
- (11) On the date so fixed, the Committee shall proceed to take all such evidence as may be produced by the Director, including oral examination of witnesses and production of documents:

Provided that the Committee may permit the cross-examination of any witness to be deferred until any other witness or witnesses have been examined or recall any witness for further cross-examination.

- (12) After the presenting of evidence by the Director is over, the complainant shall be given an opportunity, if present during the hearing, to present any additional evidence after satisfying the Committee that such evidence is relevant and has not been brought forward during the presentation by the Director.
- (13) The respondent shall be then called upon to enter upon his defence and produce his evidence.
- (14) If the respondent applies to the Committee to issue any notice for compelling attendance of any witness for the purpose of examination or cross-examination, or the production of any document or any material object, the Committee shall issue such notice unless it considers that such application should be refused on the ground that it is made for the purpose of vexation or delay or for defeating the ends of justice and such ground shall be recorded by it in writing.
- (15) The witnesses summoned at the instance of the complainant under sub-rule (12) or the respondent under sub-rule (14) shall not be eligible for reimbursement of expenses incurred for attending the hearing.
- (16) After evidences have been presented, the Director and the respondent shall present their arguments before the Committee:
Provided that after the Director has presented his argument, if the complainant, provided he is present during the hearing, feels that any vital argument has been left out by the Director, may present the argument, after convincing the Committee of the same.
- (17) The Committee shall consider the evidences and arguments produced before it and arrive at a finding on whether the respondent is guilty or not of any professional or other misconduct.
- (18) The Committee may, at the request of any of the parties before it or due to other reasons, and on such terms as it thinks fit, and at any stage of the proceedings, adjourn the hearing:
Provided that such adjournment shall not be given more than once at any stage of the proceedings.

Explanation.-For the purpose of this rule, inability of the complainant, advocate, authorized representative or witness, to appear shall not be treated as a valid reason for adjournment of a hearing.

19. Orders of the Committee.-

- (1) On arriving at a finding under sub-rule (8) or sub-rule (17) of rule 18 that the respondent is guilty of professional or other misconduct, the Committee shall give the respondent an opportunity to be heard before passing any order under sub-section (3) of section 21B of the Act:
Provided that if the respondent does not appear before the Committee at the time directed to do so when given such an opportunity to be heard, the Committee shall presume that he has nothing more to represent before it and shall pass orders under sub-section (3) of section 21B of the Act.
- (2) On arriving at a finding under sub-rule (17) of rule 18 that the respondent is not guilty of professional or other misconduct, the Committee shall pass orders closing the case.

- (3) The Committee shall send, free of charge, to the Director, respondent and the complainant, a certified copy of the final order.

CHAPTER VI

Miscellaneous

20. Attendance of hearings by the complainant, respondent and witness.-
- (1) The complainant and the respondent shall have the right to attend the hearings of the Board of Discipline or the Committee, as the case may be, unless ordered otherwise by the Board of Discipline or Committee, for reasons to be recorded in writing.
- (2) The complainant and the respondent shall not be eligible for reimbursement of expenses incurred for attending the hearing.
- (3) A witness summoned before the Committee under sub-rule (11) of rule 18 shall be eligible for reimbursement of expenses, as determined through guidelines laid down by the Council.
21. Residuary provision.- Matters relating to the procedure of investigation, conduct of cases and allowances to nominated members with respect to which no express provision has been made in these rules shall be referred in each case to the Central Government for its decision and the decision of the Central Government thereon shall be binding.

Sd/-

(Jitesh Khosla) Joint Secretary to the Govt. of India

FORM I [See sub-rule (1) of Rule 3]

1.	Name of the Complainant:	.....
	(with membership number, if member of Institute of Chartered Accountants of India)	.....
2.	Name of the member/firm against whom complaint is being made:	.....
	(with membership number/registration number of the firm, if known)	.....
3.	Latest address of the complainant for communication	.....
		
		
		Pin Code :
4.	Last available professional address of the Member or the firm against whom the complaint is made	.....
		
		
		Pin Code :
5.	Particulars of allegation(s) serially numbered together with corresponding clause/part of the relevant Schedule(s), or	1
	Particulars of allegation(s) serially numbered together with clause/part of	2

	the relevant Schedule(s) under which the alleged acts of commission or omission or both would fall		
		3	.....
		4	.....
		5	.....
6.	Particulars of evidence(s) adduced in support of the allegation(s) made		.....
			
7.	Name(s) of person who have knowledge of the facts of the case		.....
			

Date:

Place:

Signature of the Complainant

VERIFICATION

I , the Complainant, do hereby declare that what is stated above is true to the best of my information and belief.

Verified today the day of 20 at

Date:

Place:

Signature of the Complainant

Annexure III

Announcement

The definition of “Management Consultancy & other Services” includes the services rendered by a certified Filing centre under MCA21 e-Governance Programme of the Ministry of Company Affairs

As you are aware that the Council at its 261st meeting held from 1st to 3rd August 2006 has permitted a Chartered Accountant in practice to render entire range of “Management Consultancy & Other Services” in corporate form. The definition of “Management Consultancy & Other Services” is appearing at pages 8-10 of Code of Ethics, January 2005 edition. The full text of the definition of “Management Consultancy & Other Services” is as follows:

"2.2.4 The definition of the expression "Management Consultancy and other Services" is given below: The expression "Management Consultancy and other Services" shall not include the function of statutory or periodical audit, tax (both direct taxes and indirect taxes) representation or advice concerning tax matters or acting as liquidator, trustee, executor, administrator, arbitrator or receiver, but shall include the following:

- 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.
- viii. Market research and demand studies.
- ix. Price-fixation and other management decision making.
- x. Management accounting systems, cost control and value analysis.
- xi. Control methods and management information and reporting.
- xii. Personnel recruitment and selection.
- xiii. Setting up executive incentive plans, wage incentive plans etc.
- xiv. Management and operational audits.
- xv. Valuation of shares and business and advice regarding amalgamation, merger and acquisition.
- xvi. Business Policy, corporate planning, organisation development, growth and diversification.
- xvii. Organisation structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of work loads.
- xviii. Systems analysis and design, and computer related services including selection of hardware and development of software in all areas of services which can otherwise be rendered by a Chartered Accountant in practice and also to carry out any other professional services relating to EDP.
- xix. Acting as advisor or consultant to an issue, including such matters as:-
 - a. Drafting of prospectus and memorandum containing salient features of prospectus. Drafting and filing of listing agreement and completing formalities with Stock Exchanges, Registrar of Companies and SEBI.
 - b. Preparation of publicity budget, advice regarding arrangements for selection of (i) ad-media, (ii) centres for holding conferences of brokers, investors, etc., (iii) bankers to issue, (iv) collection centres, (v) brokers to issue, (vi) underwriters and the underwriting arrangement, distribution of publicity and issue material including application form, prospectus and brochure and deciding on the quantum of issue material (In doing so, the relevant provisions of the Code of Ethics must be kept in mind).
 - c. Advice regarding selection of various agencies connected with issue, namely Registrars to Issue, printers and advertising agencies.
 - d. Advice on the post issue activities, e.g., follow up steps which include listing of instruments and despatch of certificates and refunds, with the various agencies connected with the work.

Explanation: For removal of doubts, it is hereby clarified that the activities of broking, underwriting and portfolio management are not permitted.

- e. Investment counselling in respect of securities [as defined in the Securities Contracts (Regulation) Act, 1956 and other financial instruments.] (In doing so, the relevant provisions of the Code of Ethics must be kept in mind).
- f. Acting as registrar to an issue and for transfer of shares/ other securities. (In doing so, the relevant provisions of the Code of Ethics must be kept in mind).
- g. Quality audit.
- h. Environment Audit.
- i. Energy Audit
- g. Acting as Recovery Consultant in the Banking Sector.
- h. Insurance Financial Advisory services under the Insurance Regulatory & Development Authority Act, 1999 including Insurance Brokerage.

The Council at its 261st meeting held from 1st to 3rd August 2006 decided to allow members in practice to hold the office of Managing Director, Whole-time Director or Manager of a body corporate within the meaning of the Companies Act, 1956 provided that the body corporate is engaged exclusively in rendering "Management Consultancy and Other Services" permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 and complies with the conditions(s) as specified by the Council from time to time in this regard. The guidelines in this regard have been issued w. e. f. 01.10.2006.

As you are also aware that the Ministry of Company Affairs has introduced the Scheme for Certified Filing Centres (CFCs) to be operated by Professionally qualified persons/Bodies to facilitate e-filing of documents under MCA21 e-Governance Programme of the Ministry of Company Affairs, Government of India and the Scheme has come into force w.e.f. 20th April, 2006. The Certified Filing Centre is made available with a greater out-reach so as to ensure that the stakeholders do not face difficulties in the e-filing process. The Scheme provides an opportunity to the practicing members to set up the required facilities for this purpose. The Ministry is approving the Certified Filing Centres on the recommendations of the Institute.

The Council at its 263rd meeting held from 12th to 14th October 2006 clarified that the expression "Management Consultancy & Other Services" already includes such services as rendered by a Certified Filing Centre under MCA 21 e-governance programme of the Ministry of Company Affairs, Government of India.

Annexure IV

Announcement

Withdrawal of the Statement on Qualifications in Auditor's Report (Except Paragraph 2.1 to 2.30 Dealing with Report under section 227(1A) of the Companies Act, 1956)

1. Attention of the members is invited to the Statement on Qualifications in the Auditor's Report ("the Statement") issued by the Institute in 1981 (revised in 1984 and 2000). The Statement, primarily, contains guidance on the following aspects of an auditor's report:
 - (i) reporting in terms of the requirements of section 227(1A) of the Companies Act, 1956; and
 - (ii) issuance of qualified/ adverse/ disclaimer of opinion.

In addition, the Statement also deals with other related aspects such as the manner of presenting the opinion in the audit report, directors' comments on qualifications, separate report to directors, branch audit reports as also some examples of situations giving rise to other than unqualified opinion.

2. Members' attention is also invited to the Auditing and Assurance Standard (AAS) 28, The Auditor's Report on Financial Statements, issued by the Institute in January 2003. The said AAS,

among other things, discusses in details, the fundamental principles and considerations involved in issuing various types of opinions – unqualified, qualified, adverse, disclaimer and emphasis of matter. The Standard also contains illustrations regarding each type of opinion, model audit report, etc.

3. The Council of the Institute at its 269th meeting held on July 18 to 20, 2007 considered the status of the Statement vis a vis AAS 28. The Council noted that in terms of the announcement of the Council on the authority attached to the documents issued by the Council, on the issuance of a Standard, any Statement on the corresponding subject automatically stands withdrawn. This position could not be applied in case of the Statement on Qualifications in Auditor's Report upon issuance of AAS 28 since, as noted in paragraph 1 above, the Statement contains guidance on certain additional aspects such as, reporting under section 227(1A), manner of making qualifications, the directors' comments on qualifications, separate report to directors and branch audit reports.
4. Paragraphs 1.1 to 1.5 of the Statement on Qualifications in Auditor's Report explain the general principles regarding compliance with section 227 of the Companies Act, 1956, which have become obsolete by now. Also, paragraphs 2.31 to 2.32 of the Statement deal with the reporting under Manufacturing and Other Companies (Auditor's Report) Order, 1975, which also has become obsolete now. Further, paragraphs 3.1 to 4.10 of the Statement on Qualifications in Auditor's Report enunciate the principles involved in issuing other than unqualified reports as well as examples of situations that may give rise to other than a unqualified opinion and suggested wordings therefor. The Council is of the view that these aspects have been amply covered in AAS 28 and also that AAS 28 contains sufficient examples of situations giving rise to other than unqualified opinions as well as suggested wordings. Accordingly, the Council has decided to withdraw the Statement on Qualifications in Auditor's Report except paragraphs 2.1 to 2.30, dealing with report under section 227 (1A) of the Companies Act, 1956.
5. The Council further decided to keep the paragraphs 2.1 to 2.30 of the existing Statement and rename the Statement as "Statement on Reporting under section 227 (1A) of the Companies Act, 1956".

Annexure V

CLARIFICATION ON THE AUDITORS' RIGHTS WHERE CLIENTS AND OTHER AUDITORS SEEK ACCESS TO THEIR AUDIT WORKING PAPERS*

1. Statement on Standard Auditing Practice[Now known as Auditing and Assurance Standards (AASs)] 1, Basic Principles Governing An Audit, states in para 6, "The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose." Statement on Standard Auditing Practice (AAS) 3, Documentation (Paragraph 13), states, "Working papers are the property of the auditor. The auditor may, at his discretion, make portions of or extracts from his working papers available to his client." SAP 3 further requires (paragraph 14), inter alia, that the "auditor should adopt reasonable procedures for custody and confidentiality of his working papers."
2. Part I of the Second Schedule to the Chartered Accountants Act, 1949 provides that "A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he "Discloses information acquired in the course of his professional engagement to any person other than his client, without the consent of his client or otherwise than as required by any law for the time being in force."
3. Requests are sometimes received by the members of the Institute, who have/had been performing the duties as the auditors of an enterprise, to provide access to their audit working papers. The requests may be made by the clients or other auditors of the enterprise or its related enterprise such as a parent enterprise.

4. It is hereby clarified that except to the extent stated in para 5 below, an auditor is not required to provide the client or the other auditors of the same enterprise or its related enterprise such as a parent or a subsidiary, access to his audit working papers. The main auditors of an enterprise do not have right of access to the audit working papers of the branch auditors. In the case of a company, the statutory auditor has to consider the report of the branch auditor and has a right to seek clarifications and/or to visit the branch if he deems it necessary to do so for the performance of the duties as auditor. An auditor can rely on the work of another auditor, without having any right of access to the audit working papers of the other auditor[Reference in this regard may be made to the Auditing and Assurance Standard (AAS) 10, "Using the Work of Another Auditor" and the Auditing and Assurance Standard (AAS) 7, "Relying on the Work of Internal Auditor."]. For this purpose, the term 'auditor' includes 'internal auditor'.
5. As stated in para 4, the client does not have a right to access the working papers of the auditor. However, the auditor may, at his discretion, in cases considered appropriate by him, make portions of or extracts from his working papers available to the client.

Annexure VI

AAS 35

The Examination of Prospective Financial Information⁴⁸

The following is the text of the Auditing and Assurance Standard (AAS) 35⁴⁹, "The Examination of Prospective Financial Information", issued by the Council of the Institute of Chartered Accountants of India. This Standard should be read in conjunction with the "Preface to the Statements on Standard Auditing Practices", issued by the Institute.

Introduction

1. The purpose of this Auditing and Assurance Standard (AAS) is to establish standards and provide guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions. This AAS does not apply to the examination of prospective financial information expressed in general or narrative terms, such as that found in management's discussion and analysis in an entity's annual report, though many of the procedures outlined herein may be suitable for such an examination⁵⁰. Further, the principles laid down in the other Auditing and Assurance Standards (AASs), issued by the Institute of Chartered Accountants of India, should be used by the auditor, to the extent practicable, in applying this AAS.

⁴⁸ The date this Auditing and Assurance Standard comes into effect, the Guidance Note on Accountant's Report on Profit Forecasts and/or Financial Forecasts, issued in September, 1982 shall stand withdrawn.

⁴⁹ * Issued in February, 2007.

⁵⁰ The guidance provided in this Standard is in line with the provisions of clause (3) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 [as amended by the Chartered Accountants (Amendment) Act, 2006]. This clause provides that a chartered accountant in practice shall be deemed to be guilty of professional misconduct "if he 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." As per the opinion of the Council while finalising the Guidance Note on Accountant's Report on Profit Forecasts and/or Financial Forecasts at its 100th meeting held on 22nd through 24th July 1982, a chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts and so long as he does not vouch for the accuracy of the forecasts. The Council has further opined that the same opinion would also apply to projections made on the basis of hypothetical assumptions about future events and management actions which are not necessarily expected to take place so long as the auditor does not vouch for the accuracy of the projection. (emphasis added)

2. In an engagement to examine prospective financial information, the auditor⁵¹ should obtain sufficient appropriate evidence as to whether:

- (a) management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;
- (b) the prospective financial information is properly prepared on the basis of the assumptions;
- (c) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and
- (d) the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

3. "Prospective financial information" means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgment. Prospective financial information can be in the form of a forecast, a projection, or a combination of both, for example, a one year forecast plus a five year projection.

4. A "forecast" means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

5. A "projection" means prospective financial information prepared on the basis of:

- (a) hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- (b) a mixture of best-estimate and hypothetical assumptions.

Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur (a "what-if" scenario).

6. Prospective financial information can include financial statements or one or more elements of financial statements and may be prepared:

- (a) as an internal management tool, for example, to assist in evaluating a possible capital investment; or
- (b) for the distribution/submission to third parties in, for example:
 - a prospectus to provide potential investors with information about future expectations.
 - an annual report to provide information to shareholders, regulatory bodies and other interested parties.
 - a document, for example, cash flow forecasts, for the information of lenders.

7. Management is responsible for the preparation and presentation of the prospective financial information, including the identification and disclosure of the sources of information, the basis of forecasts and the underlying assumptions. The auditor may be asked to examine and report on the prospective financial information to enhance its credibility, whether it is intended for use by third parties or for internal purposes.

⁵¹ The term "auditor" is used throughout this AAS when describing services involving examination of prospective financial information. Such reference is not intended to imply that a member performing such services need necessarily be the statutory auditor of the entity's financial statements.

The Auditor's Assurance Regarding Prospective Financial Information

8. Prospective financial information relates to events and actions that have not yet occurred and might not occur. While evidence may be available to support the assumptions on which the prospective financial information is based, such evidence is itself generally future- oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in the examination of historical financial information. The auditor is, therefore, not in a position to express an opinion as to whether the results shown in the prospective financial information will be achieved.

9. Further, given the types of evidence available in assessing the assumptions on which the prospective financial information is based, it may be difficult for the auditor to obtain a level of satisfaction sufficient to provide a positive expression of opinion that the assumptions are free of material misstatement. Consequently, in this AAS, when reporting on the reasonableness of management's assumptions, the auditor provides only a moderate level of assurance.

Acceptance of Engagement

10. Before accepting an engagement to examine prospective financial information, the auditor would consider, amongst other things:

- the intended use of the information;
- whether the information will be for general or limited distribution;
- the nature of the assumptions, that is, whether they are best-estimates or hypothetical assumptions;
- the elements to be included in the information; and
- the period covered by the information.

11. The auditor should not accept, or should withdraw from, an engagement when the assumptions are clearly unrealistic or when the auditor believes that the prospective financial information will be inappropriate for its intended use.

12. In accordance with AAS 26, "Terms of Audit Engagement", it is necessary that the auditor and the client should agree on the terms of the engagement. It is in the interest of both client and auditor that the auditor sends an engagement letter to help in avoiding misunderstandings regarding the engagement. An engagement letter would address the matters in paragraph 10 and set out the management's responsibilities for the assumptions and for providing the auditor with all relevant information and source data used in developing the assumptions.

Knowledge of the Business

13. The auditor should obtain a sufficient level of knowledge of the business to be able to evaluate whether all significant assumptions required for the preparation of the prospective financial information have been identified. The auditor would also need to become familiar with the entity's process for preparing prospective financial information, for example, by considering:

- (a) The internal controls over the system used to prepare prospective financial information and the expertise and experience of those persons preparing the prospective financial information.
- (b) The nature of the documentation prepared by the entity supporting management's assumptions.
- (c) The extent to which statistical, mathematical and computer-assisted techniques are used.
- (d) The methods used to develop and apply assumptions.
- (e) The accuracy of prospective financial information prepared in prior periods, if any, and the reasons for any significant variances therein.

14. The auditor should consider the extent to which reliance on the entity's historical financial information is justified. The auditor requires knowledge of the entity's historical financial information to assess whether the prospective financial information has been prepared on a basis consistent with the historical financial information and to provide a historical yardstick for considering management's

assumptions. The auditor will need to establish, for example, whether relevant historical information was audited or reviewed and whether acceptable accounting principles were used in its preparation.

15. If the audit or review report on prior period historical financial information was other than a clean report⁵² or if the entity is in a start-up/expansion phase, the auditor would consider the relevant facts and the effect on the examination of the prospective financial information.

Period Covered

16. The auditor should consider the period of time covered by the prospective financial information. Since assumptions become more speculative as the length of the period covered increases, as that period lengthens, the ability of management to make best-estimate assumptions decreases. The period would not extend beyond the time for which management has a reasonable basis for the assumptions. The following are some of the factors that are relevant to the auditor's consideration of the period of time covered by the prospective financial information:

- (a) The operating cycle, for example, in the case of a major construction project undertaken by a construction company, the time required to complete the project may dictate the period covered.
- (b) The degree of reliability of assumptions, for example, if the entity is introducing a new product, the prospective period covered could be short and broken into small segments, such as weeks or months. Alternatively, if for example, the entity's sole business is owning a property under long-term lease, a relatively long prospective period might be reasonable.
- (c) The needs of users, for example, prospective financial information may be prepared in connection with an application for a loan for the period of time required to generate sufficient funds for repayment. Alternatively, the information may be prepared for investors in connection with the issue of securities to illustrate the intended use of the proceeds in the subsequent period.

Examination Procedures

17. When determining the nature, timing and extent of examination procedures, the auditor should consider matters such as:

- (a) the knowledge obtained during any previous engagements;
- (b) management's competence regarding the preparation of prospective financial information;
- (c) the likelihood of material misstatement;
- (d) the extent to which the prospective financial information is affected by the management's judgment;
- (e) the sources of information considered by the management for the purpose, their adequacy, reliability of the underlying data, including data derived from third parties, such as industry statistics, to support the assumptions;
- (f) the stability of entity's business; and
- (g) the engagement team's experience with the business and the industry in which the entity operates and with reporting on prospective financial information.

18. The auditor would assess the source and reliability of the evidence supporting management's best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity. Examples of external sources are government publications, industry publications, economic forecast, existing or proposed legislation, and reports of changing technology. Examples of internal sources are budgets, the economic substance and viability of the entity and/or transaction or project of the entity, reputation of management responsible for assumptions underlying the prospective financial information, wage agreements, patents, royalty agreements and records, sales backlog records, debt agreements, and actions of the board of directors involving entity plans, etc.

⁵² Alternatively known as the unmodified report in terms of the Auditing and Assurance Standard (AAS) 28, The Auditor's Report on Financial Statements.

19. The auditor would consider whether, when hypothetical assumptions are used, all significant implications of such assumptions have been taken into consideration. For example, if sales are assumed to grow beyond the entity's current plant capacity, the prospective financial information will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as subcontracting production.

20. The auditor would need to be satisfied that the hypothetical assumptions are consistent with the purpose of the prospective financial information and that there is no reason to believe they are clearly unrealistic.

21. The auditor will need to be satisfied that the prospective financial information is properly prepared from management's assumptions by, for example, making checks such as recomputation and reviewing internal consistency, that is, the actions management intends to take are compatible with each other and there are no inconsistencies in the determination of the amounts that are based on common variables such as interest rates.

22. The auditor would focus on the extent to which those areas that are particularly sensitive to variation will have a material effect on the results shown in the prospective financial information. This will influence the extent to which the auditor will seek appropriate evidence. It will also influence the auditor's evaluation of the appropriateness and adequacy of disclosure.

23. When engaged to examine one or more elements of prospective financial information, such as an individual financial statement, it is important that the auditor considers the interrelationship of other components in the financial statements.

24. When any elapsed portion of the current period is included in the prospective financial information, the auditor would consider the extent to which procedures need to be applied to the historical information. Procedures will vary depending on the circumstances, for example, how much of the prospective period has elapsed.

25. The auditor should obtain written representations from management regarding the intended use of the prospective financial information, the completeness of significant management assumptions and management's acceptance of its responsibility for the prospective financial information. The management is also responsible for identification and disclosure of uncontrollable factors, outstanding litigations, commitments, or any other material factors that are likely to affect the prospective financial information.

Presentation and Disclosure

26. When assessing the presentation and disclosure of the prospective financial information and the underlying assumptions, in addition to the specific requirements of any relevant statutes, regulations as well as the relevant professional pronouncements, the auditor will need to consider whether:

- (a) the presentation of prospective financial information is informative and not misleading;
- (b) the accounting policies are clearly disclosed in the notes to the prospective financial information;
- (c) the assumptions are adequately disclosed in the notes to the prospective financial information. It needs to be clear whether assumptions represent management's best-estimates or are hypothetical and, when assumptions are made in areas that are material and are subject to a high degree of uncertainty, this uncertainty and the resulting sensitivity of results needs to be adequately disclosed;
- (d) the date as of which the prospective financial information was prepared is disclosed. Management needs to confirm that the assumptions are appropriate as of this date, even though the underlying information may have been accumulated over a period of time;
- (e) the basis of establishing points in a range is clearly indicated and the range is not selected in a biased or misleading manner when results shown in the prospective financial information are expressed in terms of a range; and
- (f) there is any change in the accounting policy of the entity from that disclosed in the most recent historical financial statements and whether reason for the change and the effect of such change on the prospective financial information has been adequately disclosed.

Documentation

27. The auditor should document matters, which are important in providing evidence to support his report on examination of prospective financial information, and evidence that such examination was carried out in accordance with this AAS. The working papers will include the sources of information, basis of forecasts and the assumptions made in arriving the forecasts, hypothetical assumptions, evidence supporting the assumptions, management representations regarding the intended use and distribution of the information, completeness of material assumptions, management's acceptance of its responsibility for the information, audit plan, the nature, timing and extent of examination procedures performed, and, in case the auditor expresses a modified opinion or withdraws from the engagement, the reasons forming the basis of such decision.

Report on Examination of Prospective Financial Information

28. The report by an auditor on an examination of prospective financial information should contain the following:

- (a) Title;
- (b) Addressee;
- (c) Identification of the prospective financial information;
- (d) Reference to the Auditing and Assurance Standard applicable to the examination of prospective financial information;
- (e) Statement that management is responsible for the prospective financial information including the underlying assumptions;
- (f) When applicable, a reference to the purpose and/or restricted distribution of the prospective financial information;
- (g) Statement that the examination procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the forecast or projection;
- (h) Statement of negative assurance as to whether the assumptions provide a reasonable basis for the prospective financial information;
- (i) Opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework;
- (j) Appropriate caveats concerning the achievability of the results indicated by the prospective financial information;
- (k) Date of report (which should be the date procedures have been completed);
- (l) Place of signature; and
- (m) Signature.

29. Such a report would:

- State whether, based on the examination of the evidence supporting the assumptions, anything has come to the auditor's attention, which causes the auditor to believe that the assumptions do not provide a reasonable basis for the prospective financial information.
- Express an opinion as to whether the prospective financial information is properly prepared on the basis of the assumptions and is presented in accordance with the relevant financial reporting framework.
- State that:
 - Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material.

Likewise, when the prospective financial information is expressed as a range, it would be stated that there can be no assurance that actual results will fall within the range; and

- In the case of a projection, the prospective financial information has been prepared for (intended use), using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that the prospective financial information should not be used for purposes other than the abovementioned intended use.

30. The following is an example of an extract from an unmodified report on a projection:

We have examined the projection of _____ (project) _____ (name of the entity) for the period from _____ to _____ as given in⁵³ _____ to the Prospective Financial Information from page ____ to ____ in accordance with Auditing and Assurance Standard 35, The Examination of Prospective Financial Information, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the projection including the underlying assumptions, set out in note _____ to the prospective financial information, is the responsibility of the Management and has been approved by the Board of Directors⁵⁴ of the company. Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information. Our responsibility does not include verification of the accuracy of the projections. Therefore, we do not vouch for the accuracy of the same.

This projection has been prepared for (describe purpose). As the entity is in a start-up phase the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.

We have carried out our examination of the prospective financial information on a test basis. Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection, assuming that _____ (state or refer to the hypothetical assumptions).

Further, in our opinion the projection is properly prepared on the basis of the assumptions as set out in Note _____ to the Prospective Financial Information and on a consistent basis in accordance with the historical financial statements, using appropriate accounting principles. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

A complete illustrative format of an unmodified report on a projection is given in Appendix 1.

31. The following is an example of an extract from an unmodified report on a forecast:

We have examined the forecast of _____ (project) of the _____ (name of the entity) for the period from _____ to _____ in accordance with the Auditing and Assurance Standard (AAS) 35, The Examination of Prospective Financial Information, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the forecast including the underlying assumptions, set out in Note _____ to the Prospective Financial Information is the responsibility of the management and has been approved by the Board of Directors of the Company. The sources of information are set out in Annexure _____ to the prospective financial information. Our responsibility is to examine the evidence supporting the forecast. Our responsibility does not include verification of the accuracy of the forecasts. Therefore, we do not vouch for the accuracy of the same.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of

⁵³ Provide suitable identification, such as by reference to page numbers or by identifying the individual schedule.

⁵⁴ Other corresponding approving authority in the case of entities other than companies.

the assumptions as set out in Note ____ and on consistent basis with historical financial statements, using appropriate accounting principles.

Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.

A complete illustrative format of an unmodified report on a forecast is given in Appendix 2.

32. When the auditor believes that the presentation and disclosure of the prospective financial information is not adequate, the auditor should express a qualified or adverse opinion in the report on the prospective financial information, or withdraw from the engagement as appropriate. An example would be where financial information fails to disclose adequately the consequences of any assumptions, which are highly sensitive.

33. When the auditor believes that one or more significant assumptions do not provide a reasonable basis for the prospective financial information prepared on the basis of best-estimate assumptions or that one or more significant assumptions do not provide a reasonable basis for the prospective financial information given the hypothetical assumptions, the auditor should either express an adverse opinion setting out the reasons in the report on the prospective financial information, or withdraw from the engagement.

34. When the examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances, the auditor should either withdraw from the engagement or disclaim the opinion and describe the scope limitation in the report on the prospective financial information.

Effective Date

35. This AAS is effective in relation to reports on projections/forecasts, issued on or after April 1, 2007. However, earlier application of the Standard is encouraged.

Compatibility with International Standard on Assurance Engagement (ISAE) 3400

Except for the matters noted below, the basic principles and essential procedures of this AAS and International Standard on Assurance Engagement (ISAE) 3400 "The Examination of Prospective Financial Information", are consistent in all material respects:

- (a) AAS precludes the auditor from expressing positive assurance regarding the assumptions as it may tantamount to vouching for the accuracy of the forecast/projection/hypothetical assumptions. Whereas, the ISAE 3400 permits the auditor to express positive assurance when in his judgment an appropriate level of satisfaction has been obtained.
- (b) The sub points in paragraph 17 (corresponding to paragraph 17 of the ISAE 3400) have been rearranged. Sub point (e) has been elucidated for the sake of better understanding of the readers. The sub points (f) and (g) have been added in the AAS as additional factors to be considered by the auditor.
- (c) In paragraph 20 of the AAS, the phrase "although evidence supporting hypothetical assumptions need not be obtained" has been deleted since it is felt that such a phrase is inconsistent with the necessity for the auditor to obtain evidence to support his conclusions.
- (d) In paragraph 26 (corresponding to paragraph 26 of the ISAE 3400), the term "professional standards" has been changed to "professional pronouncements" since pronouncements would include standards as well as other relevant documents, such as Guidance Notes, announcement(s), issued by the ICAI.
- (e) In line with requirement of AAS 28, "The Auditor's Report on Financial Statements" this AAS requires the auditor to include a scope section in the examination report to explain the nature and extent of the auditor's work. ISAE 3400 does not contain an equivalent requirement.
- (f) AAS specifically provides for the documentation required to be done by the auditor in regard to any engagement of examination of prospective financial information. However, ISAE 3400 does not contain such explicit provision.

Illustrative Format of
an Unmodified Report on a Projection
Report on Examination of
Prospective Financial Information

To the ...(addressee).....

We have examined the projection of _____ (project) _____ (name of the entity) for the period from _____ to _____ as given in⁵⁵ _____ to the Prospective Financial Information from page ____ to ____ in accordance with Auditing and Assurance Standard 35, The Examination of Prospective Financial Information, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the projection including the underlying assumptions, set out in note _____ to _____ to the prospective financial information, is the responsibility of the Management and has been approved by the Board of Directors⁵⁶ of the company. Our responsibility is to examine the evidence supporting the assumptions (excluding the hypothetical assumption) and other information in the prospective financial information. Our responsibility does not include verification of projections. Therefore, we do not vouch for the accuracy of the same.

This projection has been prepared for _____ (intended use). The projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management’s actions that are not necessarily expected to occur. Consequently, users are cautioned that this projection may not be appropriate for purposes other than that described above.

We have carried out our examination of the prospective financial information on a test basis. Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the projection, assuming that _____ (state or refer to the hypothetical assumptions).

Further, in our opinion the projection is properly prepared on the basis of the assumptions as set out in Note _____ to the Prospective Financial Information and on a consistent basis with the historical financial statements, using appropriate accounting principles. Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

For ABC & Co.,
Chartered Accountants

Signature
(Name of the member signing the report)

Date : (Designation)⁵⁷

Place of Signature : Membership Number

⁵⁵ Provide suitable identification, such as by reference to page numbers or by identifying the individual schedule.
⁵⁶ Other corresponding approving authority in the case of entities other than companies.
⁵⁷ Partner or proprietor, as the case may be.

Illustrative Format of
an Unmodified Report on a Forecast
Report on Examination of Prospective Financial Information

To the(addressee).....

We have examined the forecast of _____(project)_____ of the _____ (name of the entity) for the period from ____ to ____ as given⁵⁸ in _____ to _____ of the prospective financial information in accordance with Auditing and Assurance Standard ___, The Examination of Prospective Financial Information, issued by the Institute of Chartered Accountants of India. The preparation and presentation of the forecast including the underlying assumptions, set out in Note _____ to the Prospective Financial Information, is the responsibility of the management and has been approved by the Board of Directors of the company⁵⁹. The sources of information are set out in Annexure _____ to the prospective financial information. Our responsibility is to examine the evidence supporting the forecast. Our responsibility does not include verification of the forecasts. Therefore, we do not vouch for the accuracy of the same.

This forecast has been prepared for _____ (intended use). The forecast has been prepared using a set of assumptions as set out in Note _____ to the prospective financial information.

We have carried out our examination of the prospective financial information on a test basis.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention, which causes us to believe that assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast, read with the notes thereon, is properly prepared on the basis of the assumptions as set out in Note _____ and on a consistent basis with the historical financial statements, using appropriate accounting principles.

Actual results are likely to be different from the forecast since anticipated events might not occur as expected and the variation might be material.

For ABC & Co.,
Chartered Accountants

Signature
(Name of the member signing the report)

Date : _____ (Designation)⁶⁰

Place of Signature: _____ Membership Number

⁵⁸ Provide suitable identification, such as by reference to page numbers or by identifying the individual schedule.
⁵⁹ Other corresponding approving authority in the case of entities other than companies.
⁶⁰ Partner or proprietor, as the case may be.