

CONCISE GUIDE ON CODE OF CONDUCT AND COMPANY AUDIT

(For C.A. Final Students)

HOW TO PREPARE FOR AUDIT

Audit is a very vast and broad subject. The study material of the Institute runs into a number of pages. Any body can be frightened to see such a big book at first instance. So don't be afraid; all you have to do is to make a systematic study of it. The whole course of Audit should be studied in the following preference order. It should be kept in mind that the preference order should not be changed:

1. Code of Conduct - 16 marks.
2. Company Audit - 20 marks
3. Accounting Standard - 16 marks.
4. Bank Audit - 9 marks.
5. AAS / Guidance Notes - 9 marks
6. EDP Audit - 9 marks
7. Management Operation Audit - 9 marks
8. Cost Audit - 8 marks
9. Cooperative Society Audit - 8 marks
10. Stock Exchange Audit - 8 marks
11. Tax Audit - 9 marks
12. Insurance Audit. - 9 marks
13. Non corporate borrowers - 9 marks
14. Public Enterprise Audit - 9 marks
15. Proprietary Audit - 9 marks

IMPORTANT POINTS TO BE KEPT IN MIND

1. Try to prepare your own notes on the selected topics. By doing so you would be able to summarise 20 pages into 5 pages. The effect of this would be that at the time of revision you will have to revise only 5 pages and not all the 20 pages. Thus you will save your time by 75%.
2. You can develop the habit of revising the whole code of conduct daily in the morning. In the beginning it would take some time but slowly and gradually you would be able to do the whole in just 20 minutes. If you will do so then at least your 16 marks are sure.
3. You can also develop the habit of revising at least one AS and one AAS daily. By doing this you will not require to devote any specific time for doing those AS/AAS.

Remember, Whether you are a poor student, an average student, or a good student, you can become a better student.

POINTS TO BE FOLLOWED ON THE DAY OF EXAM & ON THE PREVIOUS NIGHT

1. Don't learn or read anything new on the day before the day of exam. All you should do is to revise what you have already done.
2. On the day of examination do that question first, which you know the best. This will lead a good impression on the mind of the person who will check your copies. Always begin answer to any question with one or two summary sentences.
3. Begin new paragraph for each point or idea.
4. Try to attempt all questions.
5. Underline key points.
6. Write legibly & big so that it is clearly visible from distance.
7. After the exam do not discuss the paper with any body. What has happened has happened it cannot be changed. Discussion will only spoil your other papers.
8. Once all your exams are over, you should make a note of all the mistakes and drawbacks for future reference. Look them before the next exams.

INTRODUCTION TO CODE OF CONDUCT

The main principles on which the Code of Conduct is based are:

- a. Independence of Auditor.
- b. No personal biasness should come in between while performing his professional duty
- c. Upholding the dignity and prestige of the profession.

It should be noted that in the examination center if you are not able to decide as to whether a particular act constitute professional misconduct or not as per any schedule or its sub-part, you should ask only one question:

Dose that particular "Action of CA" will affect the independence of the Auditor?

If the answer to the above question is YES- than it will constitute Professional misconduct.

If the answer to the above question is NO- than it will not constitute Professional misconduct.

The whole Code of Conduct is presented in the form of chart on the next page.

Every effort has been made to include all the amendments made by the Chartered Accountants (Amendment) Act, 2006.

SOME OF THE KEY AREAS IN WHICH AMENDMENT HAS BEEN MADE ARE

- 1.** Sections in which Amendment, Alteration ,Addition & Deletion made: Section4(3); Section5(3); Section6(2); Section9(2)(a); Section9(2)(b); Section10; Section15(1); Section15(2); Section16; Section17(1); Section17(3); Section18(3); Section18(4); Section19(3); Section19(4); Section21; Section22; Section24A(3); Section26(2); Section30(1); Section30(2)(g); Section30(2)(j); Section30(2)(s); Section30B;
- 2.** Newly Introduced Sections or Sub-sections: Section2(1)(aa); Section2(1)(aaa); Section2(1)(ea); Section2(1)(ha); Section2(1)(hb); Section6(3); Section6(2); Section9(3); Section9(4); Section10A; Section10B; Section15A; Section18(5A); Section18(5B); Section20(3); Section21A; Section21B; Section21C; Section21D; Section22A; Section22B; Section22C; Section22D; Section22E; Section22F; Section22G; Section28A; Section28B; Section28C; Section28D; Section29A; Section30C; Section30D; Section30E;
- 3.** Schedules in which Amendment, Alteration ,Addition & Deletion made: First Schedule Part I (1); First Schedule Part I (2); First Schedule Part I (3); First Schedule Part I (4); First Schedule Part I (5); First Schedule Part I (6); First Schedule Part I (7); First Schedule Part I (8); First Schedule Part I (11); First Schedule Part I (12)-Deleted; First Schedule Part I (13)-made 12; First Schedule Part II (1); First Schedule Part II (3)-Deleted; First Schedule Part III (2); First Schedule Part III (2); First Schedule Part III (3); Second Schedule Part I (4); Second Schedule Part I (5); Second Schedule Part I (7); Second Schedule Part I (8); Second Schedule Part I (10); Second Schedule Part II (1);
- 4.** Newly Introduced Part of Schedules: First Schedule Part IV (1); First Schedule Part IV (2); Second Schedule Part II (2); Second Schedule Part II (3); Second Schedule Part II (4); Second Schedule Part III;

SCHEDULE-I

PART-I: APAESSAAACEA (Andhra Pradesh Assistants Enters Semifinal Similarly 3-American Cyclist Enters Athletics)

- Allows others to practice as C.A. in his name unless...
- Pays or allows or agrees to pay or allows any share/commission in the fees / profits of professional business
- Accepts or agrees to accept any part of the professional work of a lawyer / other agent not member of ICAI.
- Enters into partnership with a non-member.
- Secures business by means not open to a C.A.
- Solicits clients / work by advertisement, circular, etc.
- Advertises his professional attainments or uses designation other than C.A unless.
- Accepts appointment as C.A. without communicating with previous auditor
- Accepts appointment as C.A. Without seeing as to whether the requirement of SEC.225 complied or not.

- Charges fees based on fixed % of profit or contingent upon future.
- Engages in any business other than C.A. unless permitted by council.
- Allows others to sign balance sheet in his name unless

PART-II: (PA)

- Pays share in emoluments of employment undertaken by him.
- Accepts part of the fees etc. from lawyer, broker engaged by such company.

PART-III: (FNL)

- False information given knowingly
- Not FCA styles as FCA
- Less information or no information given as asked for by ICAI, COUNCIL, etc.

PART-IV: (HD)

- Held guilty by any civil or criminal court – punishable.
- Disrepute brought to the profession- in the opinion of Council.

SCHEDULE-II

PART-I: DCCEFFGSMM (DC Can Eliminate Few Fund Generating Stations & Marketing Managers)

- Discloses confidential information obtained during course of audit.
- Certifies F/S checked by outsider
- Certifies financial estimates contingent upon future.
- Expresses opinion on F/S of enterprise in which substantially interested.
- Fails to disclose material facts necessary to make F/S not misleading.
- Fails to Report material misstatement known to him.
- Grossly negligent or does not exercise due Diligence.
- Sufficient information to warrant expression of opinion not obtained.
- Material departure from AS/GN/SAP not reported.
- Money of the client not kept in separate bank account or not used in reasonable time.

PART-II : (CDEFD)

- Contravenes any provision of the C.A. ACT or regulation made there under or guidelines issued by council..
- Discloses confidential information obtained during course of employment .

- False information given knowingly to ICAI, COUNCIL, Director (Discipline), etc.
- Defalcates or embezzles moneys received in his professional capacity.

PART-III: H

Held guilty by any civil or criminal court for offence punishable with imprisonment for greater than 6 months.

CLAUSE-3: Accepts or agrees to accept any part 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;

CRUX: A member in practice cannot Accept commission or share in the fees from a person other than member of institute, members of any other professional body or a person having such qualification as may be prescribed by the council or government.

IMPACT OF AMENDMENT BY CA (AMENDMENT) ACT 2006: Earlier a CA in practice cannot accept any commission/brokerage/share in profits of professional business to a non-member but by the recent amendment they are permitted to share fees or profit among members of any other professional body. They are also permitted to share with persons having qualification as may be prescribed from time to time in or outside India. The biggest plus of this amendment would be that the CA in India can form multi-disciplinary firms and offer multi professional services in a competitive and commercial manner. Even most of the multinational and other companies also prefer “one-stop shop” for all their needs.

CLAUSE-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.

CRUX: A Chartered Accountant in practice cannot enter into partnership with person other than a CA in practice or a member of any other professional body having prescribed qualifications.

The resident members of institute residing abroad can form partnership firms with any practicing chartered accountant provided the following two conditions are satisfied:

- Member residing abroad is entitled to be registered as a member of institute under section 4(1)(v), and
- Whose qualification are recognised by Central Govt. or Council to enter into partnership.

IMPACT OF AMENDMENT BY CA (AMENDMENT) ACT 2006: The amendment has enabled the CA in India to form multi-disciplinary firms and offer multi-professional services in a competitive and commercial manner. The council or the CG will specify the qualification for permitting such partnership.

CASE LAW - IQBAL HAMID VS. ICAI: The earlier decision made in the case of K.S.DUGAR is reversed in this case. It is now held that a C.A in practice can enter into partnership with a non-member pursuing a business or occupation other than the profession of C.A. provided he is permitted by council of ICAI. Even Council of ICAI clarified at its Meeting on March 1991: Prohibition on entering into partnership with non-Chartered Accountants was confined only to the practice of profession of Chartered Accountants. Thus one can enter into partnership for any other business.

CLAUSE-5: Secure, either through the service 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 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.

CRUX: C.A. in Practice cannot secure any professional business:

- By means not open to a Chartered Accountant, or
- Through services of a person **not his employee.**
- Through services of a person **not his partner.**
- Through services of a person **not prescribed in the regulations.**

The above clause is to prevent unnecessary competition amongst C.A.'s in practice, which may lower the dignity of the profession.

IMPACT OF AMENDMENT BY CA (AMENDMENT) ACT 2006: The amendment has permitted to secure any professional business through certain categories of non-member which will be prescribed in the regulations from time to time. This amendment has also allowed securing business through the employee of such Chartered Accountant.

CLAUSE-6: Solicits client 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:

- any chartered accountant from applying or requesting for or inviting or

securing professional work from another chartered accountant in practice ; or

- a member from responding to tenders or enquiries issued by various users of professional services or organizations from time to time and securing professional work as a consequence;

CRUX: The above clause bans all form of canvassing including issue of circulars, personal communication, etc.

OBJECTIVE: The above clause is to maintain the independence & dignity of C.A. Profession. Service rendered by an accountant is of a personal & intimate nature and its value can be appraised only by personal contacts & experience. Satisfaction of the client is the best advertisement. It is the quality of service, which attracts & retains the clients.

IMPACT OF AMENDMENT BY CA (AMENDMENT) ACT 2006: The total ban on solicitation of professional work is relaxed. The relaxation has been given in the following areas:

- Can secure professional work from another CA in practice.
- Can respond to tenders or enquiries issued by various users of professional services or organizations

FORMS OF SOLICITING WORK:

1. Advertisement & press note: - Members are not permitted to advertise and even not permitted to circulate letter to a small field of possible clients. Personal canvassing through help of employees also not permitted.

(a) Can advertise for: -

- Change in partnership / address of practice / telephone number.
- Dissolution of a firm.

But such advertisement should be: -

- Mere statement of facts
- Number of insertions to be considered.
- Appropriateness of the area of distribution of the newspaper or magazine to be considered.

(b) Can advertise in Journal of ICAI intended to give information for: -

- Sub-contract work, or
- Seeking partnership, or
- Seeking salaried employment of an accounting nature.

Provided it contains only the Accountants name, Address, Fax number, email address or Telephone no. But name of the firm / proprietorship cannot be given.

2. Empanelment application: - Can write to an organization for being enrolled on a specific & known panel for allotment of audit. Therefore a CA cannot make roving enquiries by applying to various institutions for allotment of audit.

- Can quote fees verbally on specific inquiries from institutions. But cannot send printed or cyclostyled letters quoting fees in reply to such inquiries.
- An advertisement for part-time directorship, part-time secretarial work not allowed.

- Should not respond to such empanelment in which payment of some registration fees is required (whether refundable or not)
3. **Directories:** - Can have his name included in the directory if following three conditions satisfied-
- Separate section/category of “Chartered Accountants”
 - Member/firm should belong to town/city for which directory published.
 - In normal type (not in bold letters or not in box)
 - Payments for the entry should be reasonable.
 - Entry should not be prominent in comparison to other entries.
 - Entry should not be restricted to a particular chartered accountant/accountants.
 - Entries in alphabetical & logical manner
 - Can also have his name in Trade Directory (yellow pages), Internet, Telephone services like ‘Ask me services’ provided above conditions are fulfilled.
 - Not allowed having his name or name of his firm printed in directory by making special request or by paying additional payment.
4. **Hand bills issuing:** - Cannot distribute handbills bearing the name of C.A. in practice & containing legal provisions (like changes in tax laws), to person other than his regular clients.
5. **Publication of Books or Articles:** - Not permitted to indicate association with any firm of CA in a book or an article published by him. For example cannot write in book that “XYZ” proprietor of XYZ associates, Chartered Accountant.
6. **Greeting card or Invitations:** - Greeting cards or invitations not to contain the professional designation, status & qualification of C.A. in practice.
- But designation Chartered Accountant as well as name of the firm can be used in the:
 - Greeting card
 - Invitation for Marriages, religious ceremonies, change in office premises, opening or inauguration of office of member,
 - Change in telephone number
 - Provided that such greeting cards or invitations sent only to
 - Clients,
 - Relatives, and
 - Close friends of the member
7. **Original professional work:** - C.A. should not accept the original professional work which emanates from a client introduced to him by another C.A. He should tell the client that he will accept only if it comes through the other C.A. who deals generally with his professional work.
8. **Scope of the representation:** - Auditor has a right to make representation u/s 225 of companies act, 1956.
- His representation should be so drafted so that it does not secure needless publicity for him.
 - His representation should not tantamount directly or indirectly to canvassing or soliciting for his continuation as an auditor.

- He may indicate his willingness to continue as auditor in his letter.
- 9. Public interview:** - While giving any interview etc member should not furnish any details that may result in publicity.
- 10. Advertisement under box:** - Not allowed to insert box number in the newspapers
- 11. Seeking work from professional colleague:** - As per amendment to CA (Amendment) Act 2006 it is open to a CA to apply for or request for professional work from any other CA.
- 12. Notification on Development of Website:** - Just recently ICAI has allowed its members to develop Website for their profession. The following points should be considered before developing such a website as per guidance note issued by ICAI:

PCS-PLAN & COB-LALI's DSL-ID

- (a) Pull model and not push model-** used for running the website.
- (b) Circulation of Information** – on its own or through E-Mail not allowed.
- (c) Soliciting people to visit Website** – by any mode is not allowed.
- (d) Passport size Photograph** – allowed and no other photograph.
- (e) Logo** – not to be used.
- (f) Advertisement of Website** – cannot be given & no advert. in nature of banner.
- (g) Name of Clients & fees charged** – not to be given
- (h) Chat Rooms** – can be provided, but chatting permitted only between members or between firms and their clients
- (i) Online advice** – can be given
- (j) Bulletin Board** – can be provided
- (k) Listing on Suitable Search Engine** – allowed. But field of search restricted only to the field of chartered accountant or Indian CA, Indian CPA, India Chartered Accountants, etc
- (l) Address of Website** - can be different from name of firm, but it should be as near as possible to individual name/trade name, firm name of CA in practice.
- (m) Link to Websites** – Only to ICAI, Regional Councils and branches, Government, Government Department, Regulatory Authorities, Other professional bodies like AICPA, ICAEW, CICA.
- (n) Intimation to ICAI** – within 30 days of the launch of the website.
- (o) Date up to which updated** – The date up to which the website is updated should be mentioned on website & the information should not be at material variance from the information as per ICAI's records.
- (p) Secrecy of clients matters** – handled through the website should be ensured.
- (q) Listing by CA Societies or other bodies creating data-base** – of CA or CA firm permitted. Similarly if CA or CA firm is a member of a professional body or association or chamber of commerce and they offer listing to the members or firm the same would be permitted.
- (r) Information allowed to be displayed on Firm/Members Website** –

MAY-JAPEN

- **Member/Trade/Firm name**
- **Articled clerks numbers**
- **Year of establishment**
- **Job vacancies for CA/Firm of CA/Articleship.**
- **Assignment handled – only nature of assignment to be given & not name of clients & fees charged from them.**
- **Partners Details**
 - Name of partner
 - Year of qualification
 - Other qualifications
 - Telephone no-direct, Residence, Mobile.
 - Email & Address
 - Area of Experience
- **Employees Details**
 - Professional/other
 - Name & Designation
 - Area of Experience.
- **Nature of services rendered.**

(s) **Designing of website** – should be such as it does not amount to soliciting clients or professional work or advertisement of professional attainments or services.

OTHER IMPORTANT POINTS

1. Notification CA(7)93/2006 dated 18-09-2006

(Minimum Amt chargeable as fees for certain audit)

No. Of partners	Population of city	Population of city
In firm	>3 million	<3 million
5 to 9 partners	Rs. 6000	Rs. 3500
10 and above	Rs. 12000	Rs. 8000

Note: - At least one of the partner of Firm must hold certificate of practice for more than five years

*****Exceptions**

- Honorary appointments (i.e. without fees) like in Audit of Charitable Institution, Clubs, Provident Funds, etc
- Newly formed company for first 2 years (From date of operation).
- Statutory audit of branches of banks including Regional rural banks
- Audit or certification work under Income Tax Act.
- Sales Tax Audit & Vat Audit.

2. Printing of photograph on Visiting Cards:

The **Committee on ethical Standards (CES)**, a non-standing Committee of the institute, has examined the matter in detail. The Committee noted that the **Institute has permitted display of Passport Size Photograph on the Website of Chartered Accountants** in practice/firm of Chartered Accountants in practice, which runs on a “pull” model.

The Committee further noted the following directions/guidelines as appearing at page 197 of Code of Ethics, 2005 edition:-“Public conscience is expected to be ahead of the law. Members, therefore, are expected to Interpret the

requirement as regards independence much more strictly than what the law requires and should not place themselves in positions which would either compromise or jeopardize their independence.”

In view of the above, the Committee is of the opinion that mostly the business class prints the photograph on their visiting cards for promoting their business and soliciting clients. As such, it is not permissible for the Chartered Accountants in practice to print their photograph on their visiting cards.

3. When ICAI members sign financial documents as CPAs ICAI members having membership of AICPA and having eligibility to sign the financial statements as CPAs (i.e. as members of the AICPA), may do so. Even in this case the ethical standards of ICAI shall apply.

The Council further decided that when the ICAI members sign the financial documents(s) as CPAs, they be financial required to indicate, in an appropriate manner, that their firm is an Indian accounting firm registered with the Institute of Chartered Accountants of India under the Chartered Accountants Act, 1949. In other words such a member should ensure to appropriately reflect the fact in the relevant document(s) that his firm falls within the purview of the ICAI.

4. CA in practice acting as Recovery Consultant in Banking Sector The members of ICAI in Practice can act as Recovery Consultant for recovery of Non-Performing Assets (NPA) of Banks under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SRFA&ESI). But can they charge fee on percentage basis as is permitted under Regulation 192 of the Chartered Accountants Regulations, 1988 for ‘receiver’ or liquidator’?

The Institute is of the view that Recovery Consultant cannot be equated with ‘receiver’ or ‘liquidator’ provided under Regulation 192 of the Chartered Accountants Regulations, 1988 and as such, the charging of fee by Recovery Consultant in Banking Sector on percentage basis is not permissible.

5. **Inclusion of “Insurance Financial Advisory Services under IRDA act,1999, including insurance brokerage” in definition of “Management Consultancy & other services(Revised Clarification): -**

As per the clarification of ICAI the members are not permitted to do any work relating to insurance agency as prescribed under “Insurance Regulatory and Development Authority (Licensing of Insurance agents) Regulations, 2000” and “Insurance Regulatory and Development Authority (Licensing of Corporate Agents) Regulations, 2002”, Band the existing position regarding allowing members generally to hold life insurance agency license for limited purpose of getting renewal commission, still hold good as provided in the Appendix (9) to the Chartered Accountants Regulations, 1988 (2002 edition).

It is again clarified that as on date the members in practice are not permitted to render “Insurance Financial Advisory Services under the IRDA Act, 1999 including Insurance Brokerage **as the conditions to be complied with by the members to be eligible to render the aforesaid services are yet to be prescribed by the Institute of Chartered Accountants of India.** The existing position regarding allowing members in practice generally to hold life insurance agency license for limited purpose of getting renewal commission,

still hold good as provided in the Appendix (9) to the Chartered Accountants Regulations, 1988 (2002 edition).

6. Listing with bodies creating DATA-BASE for Independent Director

The Code of Ethics, 2005 edition, at page 81 provides as under:

“A number of Chartered Accountants Societies or other bodies are creating data-base of Chartered Accountants or Chartered Accountants’ Firms and are offering listing to Chartered Accountants. Such listing would be permitted with or without payment. In case a Chartered Accountants or Chartered Accountants’ Firm is a member of a professional body or association or Chamber of Commerce and they offer listing to the members or firm, the same would be permitted.’

7. CA acting as E-Return Intermediary

Since acting as e-Return Intermediary comes within the purview of the definition of “Management Consultancy and Other Services.” Appearing at pages 8-10 of Code of Ethics, 2005 edition, it is **permissible**.

8. CA acting as Direct Selling Agent(DSA)

Committee on ethical Standards (CES), a non-standing Committee of the Institute, decided that a CA in practice:

- Not permitted to market any specific product.
- Perform all those services, which a Chartered Accountant can provide.
- Verify credit card credentials.
- Provide services that are in the nature of
 - Verification etc.
 - Assurance services.
 - Management Consultancy & Other Services.

Members are requested to keep in mind the aforesaid decision of the Committee while acting as Direct Selling Agent (DSA).