

EXPOSURE DRAFT

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Issued by

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

CHAPTER 1

AUTHORITY ATTACHED TO DOCUMENTS ISSUED BY THE INSTITUTE

Clarification regarding Authority Attached to Documents Issued by the Institute¹

- 1.1 The Institute of Chartered Accountants of India has, from time to time, issued 'Guidance Notes' on a number of matters. With the formation of the Accounting Standards Board and the Auditing and Assurance Standards Board, 'Accounting Standards' and 'Standards on Auditing' are also being issued.
- 1.2 Members have sought guidance regarding the level of authority attached to the various documents issued by the Institute and the degree of compliance required in respect thereof. This note is being issued to provide this guidance.
- 1.3 Guidance Notes, though recommendatory in nature, are issued to assist Chartered Accountants in implementing the Engagement Standards and the Standards on Quality Control issued under the authority of the Council. Guidance Notes are also issued to provide guidance on other generic or industry specific audit issues, not necessarily arising out of a Standard. Chartered Accountants should be aware of and consider Guidance Notes applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Guidance Note should take reasonable and adequate care in performing the alternate procedures adopted by him to deal with the objectives and basic principles set out in the Guidance Note. In such situations, a professional accountant should also document the rationale in performing the alternate procedures. Similarly, while discharging his attest function, a member

¹ Published in the December, 1985 issue of the 'The Chartered Accountant'. Revised in February, 2022. The revised (the announcement has been revised primarily from auditing perspective) clarification was considered and approved by the Council of ICAI at its 408th meeting held on 3rd & 4th February, 2022. Further revised in terms of the decision taken by the Council of ICAI at its 422nd meeting held on 30th June & 1st July, 2023.

should examine whether the recommendations in a Guidance Note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary in accordance with Engagement Standards.

- 1.4 The 'Accounting Standards' and 'Standards on Auditing' issued by the Accounting Standards Board and the Auditing and Assurance Standards Board, respectively, establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards and that auditors carry out their audits in accordance with the generally accepted auditing practices. They become mandatory on the dates specified either in the respective document or by notification issued by the Council. issued by the Accounting Standards Board and the Auditing Practices Committee, respectively, establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards and that auditors carry out their audits in accordance with the generally accepted auditing practices. They become mandatory on the dates specified either in the respective document or by notification issued by the Council.

Engagement and Quality Control Standards and Accounting Standards

- 1.5 The 'Accounting Standards' and 'Engagement and Quality Control Standards' establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards and that auditors carry out their audits in accordance with the generally accepted auditing practices. They become mandatory on the dates specified in the respective document or by notification issued by the Council.
- 1.6 In a situation where certain matters are covered by a recommendatory Accounting Standard and subsequently, an Accounting Standard is issued which also covers those matters, the recommendatory Accounting Standard or the relevant portion thereof will be considered as superseded from the date of the new Accounting Standard coming into effect, unless otherwise specified in the new Accounting

Standard.

- 1.7 In a situation where certain matters are covered by a mandatory Accounting Standard and subsequently, an Accounting Standard is issued which also covers those matters, the earlier Accounting Standard or the relevant portion thereof will be considered as superseded from the date of the new Accounting Standard becoming mandatory, unless otherwise specified in the new Accounting Standard.

Engagement and Quality Control Standards

Revised Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services

- 1.8 In July 2007, AASB issued the “Revised Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” which is effective from April 1, 2008. Pursuant to issuance of Revised Preface, the entire structure of formulation of auditing standards by AASB has undergone a complete change in line with the structure adopted by the International Auditing and Assurance Standards Board (IAASB) of IFAC. The major changes made by Revised Preface are as under:
- The nomenclature “Auditing and Assurance Standards” has been changed to ‘Engagement and Quality Control Standards’.
 - Numbering pattern of standards has been changed.
 - A new format of presenting the standards has been adopted.

Engagement and Quality Control Standards

- 1.8.1 These standards comprise Engagement Standards and Standards on Quality Control.

Engagement Standards

- 1.8.1A The ‘Engagement Standards’ comprise the following four categories of Standards:

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- *Standards on Auditing (SAs)* – These standards are to be applied in the audit of historical financial information.
- *Standards on Review Engagements (SREs)* – These standards are to be applied in the review of historical financial information.
- *Standards on Assurance Engagements (SAEs)* – These standards are to be applied in assurance engagements, other than audits and reviews of historical financial information.
- *Standards on Related Services (SRSs)* – These standards are to be applied to engagements involving application of agreed- upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

Standards on Quality Control (SQC)

1.8.1B These standards are to be applied for all services covered by the Engagement Standards as described above.

The list of Engagement and Quality Control Standards issued by ICAI is enclosed at **Appendix ‘A’**.

Numbering pattern of Standards

1.8.2 Earlier, the auditing standards were being allotted sequential numbers as and when they were issued. In case of Engagement and Quality Control Standards, the numbering pattern has been changed in line with the numbering pattern adopted by IAASB. Under the new numbering pattern, a separate numerical series has been allotted to different categories of Standards as given below:

Category	Numerical Series
Standards on Quality Control (SQC)	01–99
Standards on Auditing (SAs)	100-999
Standards on Review Engagements (SREs)	2000–2699
Standards on Assurance Engagements (SAEs)	3000–3699

New format of presenting the standards

- 1.8.3 In line with the format adopted by the IAASB under its Clarity Project, the Revised Preface provides that instead of a running text, the Standards would now contain two distinct sections, one, the *Requirements* section and, two, the *Application and Other Explanatory Material* section.

Requirements Section

- 1.9 The fundamental principles of the Standard are contained in the Requirements section and represented by use of “shall”. Hitherto, the word, “should” was used in the Standards, for this purpose. Further, this format also does away with the need to present the principles laid down by the Standard in bold text.

Application and Other Explanatory Material Section

- 1.10 The application and other explanatory material contained in a Standard are its integral part as they provide further explanation of, and guidance for carrying out, the requirements of a Standard, along with the background information on the matters addressed in the Standard. These may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement.
- 1.11 The Revised Preface makes it clear that it is the duty of the Chartered Accountants to ensure that the Standards/ General Clarifications are followed in the engagements undertaken by them. The need for the Chartered Accountants to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective. If because of that reason, a Chartered Accountant has not been able to perform an engagement procedure in accordance with any Standard/ General Clarification, he is required to document how alternative procedures performed achieve the purpose of the procedure, and, unless otherwise clear, the reasons for the departure. Further, his report should draw attention to such departures. However, a mere disclosure

in his report does not absolve a Chartered Accountant from complying with the applicable Standards/General Clarifications.

Accounting Standards

- 1.12 The Accounting Standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in the country. However, the ICAI will determine the extent of disclosure to be made in financial statements and the auditor's report thereon. Such disclosure may be by way of appropriate notes explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and therefore need not be treated as adverse comments on the related financial statements.
- 1.13 At present, there are three sets of Accounting Standards:
- (i) Indian Accounting Standards (Ind AS) notified under Companies (Indian Accounting Standards) Rules, 2015 for specified class of Companies;
 - (ii) Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021 for Companies other than those following Ind AS;
 - (iii) Accounting Standards (AS) prescribed by ICAI for entities other than Companies.
- 1.14 As per the due process, Accounting Standards Board formulates Accounting Standards, which are approved by the Council of the ICAI. Accounting Standards which are applicable to non-companies are issued by the ICAI. Accounting Standards (AS and Ind AS) which are applicable to companies are recommended by ICAI and prescribed by the Central Government under Section 133 of Companies Act, 2013 in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA).
- 1.15 Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organised in corporate, co-operative or other forms) engaged in commercial,

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industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature² (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.

The term General Purpose Financial Statements includes Balance Sheet, Statement of Profit and Loss, a Cash Flow Statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. The Accounting Standards become mandatory on the dates specified in the respective Accounting Standards or as may be notified by the Council of ICAI or the Central Government.

- 1.16 The Accounting Standards will be mandatory from the respective date(s) mentioned in the Accounting Standard(s). The mandatory status of an Accounting Standard implies that while discharging their attest functions, it will be the duty of the members of the ICAI to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation.

Even where Accounting Standards are not mandatory as per statute governing the entity, while discharging the attest functions, it will be

² It may be noted that as per Companies Act, Accounting standards shall be applicable to all the companies since rules notified thereunder do not mention the words 'Commercial, industrial or business activities', meaning thereby that the notified Accounting Standards(AS or Ind AS) are applicable to all the companies, whether engaged purely in commercial, industrial or business activities or not.

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the duty of the member of the Institute to examine whether the Accounting Standards are complied with in the presentation of financial statements

- 1.17 The list of Accounting Standards notified by the MCA for companies and issued by the ICAI for non-company entities as on 1st April, 2025 and list of Ind AS notified by the MCA for entities following Ind AS as on April 1, 2025 is mentioned at **Appendix 'B'**.
- 1.18 The Companies Act, 2013 as well as many other statutes require that the financial statements of an enterprise should give a true and fair view of its financial position and financial performance. This requirement is implicit even in the absence of a specific statutory provision to this effect. However, what constitutes 'true and fair' view has not been defined either in the Companies Act, 2013, or in any other statute. The Accounting Standards (as well as other pronouncements of the ICAI on accounting matters) seek to describe the accounting principles and the methods of applying these principles in the preparation and presentation of financial statements so that they give a true and fair view.
- 1.19 Besides the requirement regarding 'true and fair' view under the Companies Act, 2013, Section 133 of the Companies Act, 2013 requires that the Central government may prescribe the Standards of Accounting as recommended by the Institute of Chartered Accountants of India in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA). Further, section 129 of the Companies Act, 2013 requires that the financial statements shall comply with Accounting Standards notified under Section 133 of the Companies Act, 2013.
- 1.20 In the context of Ind AS (refer paragraph 1.13(i)), it may be mentioned that the Central Government issued Notification dated February, 16, 2015, vide Companies (Indian Accounting Standards) Rules, 2015 prescribing Indian Accounting Standards that are amended from time to time. These are converged with globally accepted International Financial Reporting Standards and applicable to certain classes of Companies as required by the road map issued by the MCA.
- 1.21 With regard to AS (refer paragraph 1.13(ii)), it may be mentioned that in the year 2006, Accounting Standards 1 to 7 and 9 to 29 were

notified by the Ministry of Corporate Affairs, Government of India, under the Companies (Accounting Standards) Rules, 2006 vide its notification dated December 7, 2006. In the year 2021, AS Rules 2006 were mirrored under the Companies Act, 2013 and notified as Companies (Accounting Standards) Rules, 2021 applicable in respect of accounting periods commencing on or after April 01, 2021.

- 1.22 Accounting Standards for non-company entities (refer paragraph 1.13(iii)) are issued by the ICAI which are harmonised with Accounting Standards Rules notified by the Ministry of Corporate Affairs. The ICAI has also issued the 'Revised Criteria for classification of Non-company entities for applicability of Accounting Standards' prescribing the scheme for applicability of accounting standards issued by ICAI to non-company entities. For details of Indian Accounting Standard and Accounting Standard, the members may refer "Compendium of Indian Accounting Standards" and "Compendium of Accounting Standards" issued by the Institute from time to time.

Other Standards

Forensic Accounting and Investigation Standards (FAIS)

- 1.23 The Forensic Accounting and Investigation Standards (FAIS) are the detailed set of standards in this area issued by ICAI. The framework comprises 20 Standards and 3 Overarching Documents, covering all critical aspects of a forensic engagement such as planning, evidence collection, analysis, documentation, reporting, and quality control. To facilitate effective adoption, ICAI has also released an Implementation Guide on FAIS, which provides practical guidance, case studies, and illustrations to help professionals apply the standards in real-life scenarios.

These standards became mandatory for all forensic engagements undertaken by ICAI Member on or after July 1, 2023, ensuring that the profession keeps pace with emerging fraud patterns and investigative challenges.

Accounting Standards for Local Bodies

- 1.24 Accounting Standards for Local Bodies do not override the statute/law that govern the issue of general purpose financial statements of a particular Local Body. Accounting Standards for Local Bodies issued by the ICAI will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned. Financial statements cannot be described as complying with the Accounting Standards for Local Bodies unless they comply with all the requirements of each applicable Standard.

Accounting Standard for Local Bodies (ASLB) 2, 'Cash Flow Statements' and ASLB 5, 'Borrowing Costs' have been mandated by the Council of the ICAI to comply with while auditing the Financial Statements of Urban Local Bodies (ULBs) w.e.f. 1st April 2022².

³Guidance Note on 'Accounting for Investments' for Local Bodies has been mandated by the Council of the ICAI for Members w.e.f. 1st April 1, 2022.

Standards on Internal Audit

- 1.25 The Standards on Internal Audit (SIAs) as issued by the ICAI are a set of minimum requirements that apply to all members of the ICAI while performing internal audit of any entity or body corporate. The Standards on Internal Audit are recommendatory in nature. The Council of ICAI has decided that the Standards will be made mandatory in a phased manner.

Standard on Sustainability

- 1.26.1 Standard on Sustainability Assurance Engagements (SSAE) 3000, "Assurance Engagements on Sustainability Information"- The Standard deals with assurance engagements on an entity's sustainability information. This Standard should be read in conjunction with the "Framework for Assurance Engagements" issued by ICAI. However, in case of any conflicts between this standard and

² As incorporated pursuant to the decision of the Council at its 393rd meeting held on June 30th June and 1st July , 2020 (Announcement of Council of ICAI is available at <https://resource.cdn.icai.org/60819cpfgm49453.pdf>).

³ As incorporated pursuant to the decision of the Council at its 406th Meeting held on 14th December, 2021

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the Framework for Assurance Engagements, this Standard shall prevail. For engagements on specific subject matters, such as greenhouse gas statements, SSAE 3000 is applied in addition to the relevant subject-specific standard.

- 1.26.2 Standard on Assurance Engagements (SAE) 3410 “Assurance Engagements on Greenhouse Gas Statements”- The Standards deals with assurance engagements to report on an entity’s greenhouse gas statement. This is a subject-specific standard that deals exclusively with assurance engagements to report on an entity's greenhouse gas (GHG) statement. It provides a framework for practitioners to obtain either limited or reasonable assurance on whether the GHG statement is free from material misstatement.

These Sustainability Reporting Standards are applicable on Voluntary basis for assurance reports covering periods ending on March 31, 2023 and on Mandatory basis for assurance reports covering periods ending on or after March 31, 2024

Social Impact Assessment (Audit) Standards (SASs)

- 1.27 Social Audit Standards issued by Sustainability Reporting Standards Board (SRSB) of ICAI. Social enterprise may be for profit or not for profit organisation. While discharging their professional responsibility as Social Impact Assessor (Social Auditor), it is the duty of Social Impact Assessor (Social Auditor) to ensure that the SASs are followed. If for any reason a Social Impact Assessor (Social Auditor) is not able to perform a Social Impact Assessment (earlier Social Audit) in accordance with the SASs, his report should draw attention to the material departures therefrom. The Social Audit Standards apply whenever an independent Social Impact Assessment (earlier Social Audit) of a social enterprise is carried out. Social Impact Assessor (Social Auditor) are expected to follow SASs in the Social Impact Assessment (earlier Social Audit) commencing on or after the effective date specified in the SASs. Further, compliance with SASs is mandatory requirements for Social Impact Assessor (Social Auditor) while carrying out Social Impact Assessment (earlier Social Audit) for social enterprises listed on social stock exchange.

Other Documents

- 1.28 The Technical Guides are ordinarily aimed at imparting broad knowledge about a particular aspect or of an industry to the professional accountants. Practice Manuals are aimed at providing additional guidance to professional accountants in performing audit and other related assignments. Studies and other papers are aimed at promoting discussion or debate or creating awareness in the areas affecting the profession. Such publications do not establish any basic principles or essential procedures, and accordingly, have no authority of the Council attached to them. General Clarifications are issued by the Institute under the authority of the Council with a view to clarify any issues relevant under the terms and reference of different Committees of the Institute. They are mandatory in nature.

CHAPTER 2

THE CHARTERED ACCOUNTANTS ACT, 1949

2.1 GENERAL PROVISIONS:-

The Preamble of the Chartered Accountants Act, 1949 ('the Act') sets the purpose of the Act as "An Act to make provision for the regulation and development of the profession of Chartered Accountants." The Institute of Chartered Accountants of India was constituted under the Act whose affairs are managed by the Council. The Council of the Institute has been empowered to discharge the functions assigned to it under the Act. The Chartered Accountants (Amendment) Act, 2006 and subsequently the Chartered Accountants, the Cost And Works Accountants and the Company Secretaries (Amendment) Act, 2022 (No. 12 of 2022) has, *inter alia*, introduced provisions for a new Disciplinary Mechanism within its framework which would ensure well considered and expeditious disposal of complaints against members on professional or other misconduct. The provisions provided for appointment of a Director (Discipline), to investigate complaints, constitution of a Board of Discipline and *Disciplinary Committee(s)* to deal with cases and providing for an Appellate Authority, to deal with appeals arising out of decisions of the Board of Discipline and the Disciplinary Committee(s), as the case may be. The Chartered Accountants (Amendment) Act, 2011 has incorporated changes as necessitated by the Limited Liability Act, 2008.

2.2 Members who are deemed to be in Practice

2.2.1 Every member of the Institute is entitled to designate himself as a Chartered Accountant. There are two classes of members, those who are in practice and those who are otherwise occupied.

2.2.2 In Section 2(2) of the Act, the term "to be in practice" has been defined as follows:-

"A member of the Institute shall be deemed "to be in practice" when individually or in partnership with chartered accountants in practice or in partnership with members of such other recognised professions as may be prescribed, he, in consideration of remuneration received or to be received, -

(i) engages himself in the practice of accountancy; or

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- (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 or a firm consisting of one or more and members of any other professional body having prescribed qualifications shall, notwithstanding such employment, be deemed to be in practice for the limited purpose of the training of articled assistants ”.

- 2.2.3 Pursuant to Section 2(2) (iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of “Management Consultancy and other Services” 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

* Consideration of “tax implications” while rendering the services at (i), (ii), (iii) and (iv) will be considered as part of “Management Consultancy and other Services”.

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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 *including Information System Audit****.
- (xv) Valuation of shares and business and advice regarding amalgamation, merger and acquisition. *Acting as Registered Valuer under the Companies Act, 2013 read with The Companies (Registered Valuers and Valuation) Rules, 2017***.
- (xvi) Business Policy, corporate planning, organisation

** As incorporated pursuant to decision of Council at its 388th Meeting held on 6th & 7th Feb., 2020.

*** As amended pursuant to decision of Council at its 442nd Meeting held on 26th and 27th May., 2025.

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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 workloads.
- (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.

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

- (xx) Investment counseling 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).
- (xxi) 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).
- (xxii) Quality Audit.
- (xxiii) Environment Audit.
- (xxiv) Energy Audit.
- (xxv) Acting as Recovery Consultant in the Banking Sector.
- (xxvi) Insurance Financial Advisory Services under the Insurance Regulatory & Development Authority Act, 1999 including Insurance brokerage (not including Insurance Agency).
- (xxvii) Acting as Insolvency Professional in terms of Insolvency and Bankruptcy Code, 2016*.
- (xxviii) Administrative Services**.
- (xxix) Forensic Accounting and Investigation.***
- (xxx) Research Analyst recognized by a regulator
- (xxxi) Assessment and evaluation of Social Impact, CSR Impact, Business Responsibility and Sustainability Reporting, and the like
- (xxxii) Artificial Intelligence (AI) Consultancy in areas of services

* As incorporated pursuant to decision of Council taken at its 362nd Meeting held on 6th - 8th Feb., 2017

**As incorporated pursuant to decision of Council taken at its 388th Meeting held on 6th & 7th Feb., 2020. Detailed scope of service mentioned in paragraph 2.2.7.

*** As incorporated pursuant to decision of Council taken at its 442nd Meeting held on 26th and 27th May., 2025

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which can be rendered by a Chartered Accountant in practice

- 2.2.4 Pursuant to Section 2(2) (iv) of the Chartered Accountants Act, 1949, read with Regulation 191 of Chartered Accountants Regulations, 1988 a member shall be deemed to be in practice if he, in his professional capacity and neither in his personal capacity nor in his capacity as an employee, acts as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matters or takes up an appointment made by the Central Government or a State Government or a court of law or any other legal authority or acts as a Secretary unless his employment is on a salary-cum-full-time basis.
- 2.2.5 It is necessary to note that a person is deemed to be in practice not only when he is actually engaged in the practice of accountancy but also when he offers to render accounting services whether or not he in fact does so. In other words, the act of setting up of an establishment offering to perform accounting services would tantamount to being in practice even though no client has been served.
- 2.2.6 A member of the Institute is deemed to be in practice during the period he renders 'service with armed forces'.
- 2.2.7 Administrative services are provided in Sub-section 602 of Volume-I of Code of Ethics. Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include:
- Word processing services.
 - Preparing administrative or statutory forms for client approval.
 - Submitting such forms as instructed by the client.
 - Monitoring statutory filing dates, and advising an audit client of those dates.

For example, the functions of a GST practitioner as specified under Rule 83(8) of Central Goods and Services Tax Rules, 2017:-

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- (a) furnish the details of outward and inward supplies;
- (b) furnish monthly, quarterly, annual or final return;
- (c) make deposit for credit into the electronic cash ledger;
- (d) file a claim for refund;
- (e) file an application for amendment or cancellation of registration;
- (f) furnish information for generation of e-way bill;
- (g) furnish details of challan in form GST ITC-04;
- (h) file an application for amendment or cancellation of enrolment under rule 58; and
- (i) file an intimation to pay tax under the composition scheme or withdraw from the said scheme.

2.2.8 Some of the emerging areas arising out of evolution of technology where the Council has permitted members to undertake assignments under abovementioned entry (xviii) are making Data entry and databases in Unique Identity (UID) – Aadhar under the Unique Identification Authority of India and establishment of Tax Information Network Facilitation Centre (TIN-FC) and its franchise.

2.3 Significance of the Certificate of Practice

Section 6 of the Act provides that:-

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.

- (2) *Every such member shall pay annual fee for the certificate as may be determined, by notification, by the Council, ¹[] and such fee shall be payable on or before the 1st day of April in each year:*

²[]

- (3) *The certificate of practice obtained under sub-section (1) may be cancelled by the Council under such circumstances as may be prescribed.*

- 2.3.1 A member who is not in practice, is precluded from accepting engagement to render services of any of the types normally prescribed for a Chartered Accountant, even though for doing so, he does not require special qualifications.

In this regard, the facts of *A.C. Kaher in Re:- Page 64 of Vol. IV(1) of Disciplinary Cases* are relevant to be noted:-

- (i) A member of the Institute who was in practice till the 10th November, 1954, was by an order of the High Court dated 11th November, 1954 suspended from practice for a period of six months though not removed from membership. Pursuant to the order of the High Court, he was asked to

¹ Omitted vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

² Ibid

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surrender the Certificate of Practice issued to him for the period of suspension which he did.

- (ii) He, however, wrote to the Institute enquiring whether he could practice as an Income Tax Practitioner under Section 61 of the Indian Income Tax Act, 1922 being qualified otherwise than as a Chartered Accountant to do so. In reply he was informed that if a member acted as a representative in taxation matters, he would be deemed to be in practice as a Chartered Accountant, and his attention in this connection was drawn to Section 2(2) of the Chartered Accountants Act and Regulation 78 of the Chartered Accountants Regulations 1949.
- (iii) He wrote back to the Institute saying that he was not "going in for practice as Chartered Accountant but doing Income-Tax cases as per the provisions of Section 61 (iv) (a) (b) and (c) of the Indian Income Tax Act, 1922". He also stated that in his opinion Section 2(2) of the Chartered Accountants Act did not supersede Section 61 of the Indian Income Tax Act, and that he was entitled to practise as an Income Tax Practitioner even before becoming a member of the Institute and he had only resumed this work since he could not practice as a Chartered Accountant.
- (iv) He was again informed by the Institute that he continued to be a member of the Institute but was only suspended from practice under the Order of the High Court for a period of six months, and that he should comply with the provisions of the Act and the Regulations in so far as they were applicable to a member of the Institute. The Commissioner of Income Tax, Punjab, PEPSU, Himachal Pradesh, J & K also informed the Institute that the member concerned had made similar representation to the Income Tax Department, that although he was suspended from practice, he could still practice as an Income Tax Practitioner under Section 61 of the Indian Income Tax Act, 1922.
- (v) The above contention of the member was not accepted by the Council on the following grounds:

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- “(a) Once the person concerned becomes a member of the Institute, he is bound by the provisions of the Chartered Accountants Act and its Regulations. If and when he appears before the Income Tax Tribunal as an Income Tax representative after having become a member of the Institute, he could so appear only in his capacity as a Chartered Accountant and a member of the Institute. Having, as it were, brought himself within the jurisdiction of the Chartered Accountants Act and its Regulations, he could not set them at naught by contending that even though he continues to be a member of the Institute and has been punished by suspension from practice as a member, he would be entitled, in substance, to practice in some other capacity.
- (b) A member of the Institute can have no other capacity in which he can take up such practice, separable from his capacity to practice as a member of the Institute.”

2.3.2 A Chartered Accountant whose name has been removed from the membership for professional and/or other misconduct, during such period of removal, will not appear before the various tax authorities or other bodies before whom he could have appeared in his capacity as a member of this Institute.

2.4 A Member in Practice is prohibited from using a designation other than Chartered Accountant (Section 7)

(7) 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.

Merchant Banker / Advisor to an issue

- 2.4.1 The members may apply for and obtain registration as category IV Merchant Banker under the SEBI's rules and regulations and act as Advisor or Consultant to an issue. In client Companies' offer documents and advertisements regarding capital issue, name and address of the Chartered Accountant or firm of Chartered Accountants acting as Advisor or Consultant to the Issue could be indicated under the caption "Advisor/Consultant to the Issue". However, the name and address of such Chartered Accountant/firm of Chartered Accountants should not appear prominently. Chartered accountants or firms of Chartered Accountants acting as Advisor or Consultant to an Issue should ensure that the description 'Merchant Banker' is not associated with their names in the offer documents and/or advertisements regarding capital issue of their client Companies. The mention of the name of Chartered Accountant/firm under the caption 'Merchant Banker' could be misleading, as there were four categories of Merchant Bankers and the members of the profession were permitted to register only as category IV 'Merchant Bankers', i.e. to act only as Advisor or Consultant to an Issue. Further, such members and firms should not use the designation of either 'Merchant Banker'

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or 'Advisor/Consultant to Issue' in their own letter heads, visiting cards, professional documents, etc. As per Regulation 3(2A) of SEBI (Merchant Bankers) Regulations, 1992, with effect from 9th December, 1997 registration as category IV Merchant Banker has been dispensed with.

Directors of Companies, Members of political parties, position in clubs, etc.

- 2.4.2 The members of the Institute who are also Directors in Companies, members of Political parties or Chartered Accountants Cells in the political parties, holding different positions in clubs or other organisations are not permitted to mention these positions as these would be violative of the provisions of Section 7 of the Act.

Members who are also Cost Accountants

- 2.4.3 Though a member cannot designate himself as a Cost Accountant, he can use the letters A.C.M.A (Associate) or F.C.M.A (Fellow) after his name, when he is a member of that Institute.

Permission to mention qualifications of certain Institutions

- 2.4.4 The members are permitted to mention membership of a foreign Institute of Accountancy, which has been recognised by the Council through a Memorandum of Understanding (MoU) / Mutual Recognition Agreement(MRA) with the said Institute.

Other Qualifications of the member

- 2.4.5 With regard to the other qualifications of a member, which he is permitted to mention, the following observations of the Supreme Court in Institute of Chartered Financial Analyst of India (ICFAI) vs Council of the Institute of Chartered Accountants of India (ICAI) dated 16th May, 2007 are relevant:-

"The expression 'any other qualification that he may possess', therefore, must be read as qualification other than conferred upon the member by other Institutes of Accountancy. Such qualification of accountancy may be conferred even by other Institutes. But as noticed hereinbefore, an exemption had been granted by reason of a resolution of the Institute in relation to the Institute of Cost and Works Accountants. Furthermore, a degree conferred by any university also

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is subject to an exemption from the rigour of the provisions of Section 7 of the Act. There cannot, therefore, be any doubt whatsoever that 'the other qualification' would mean a qualification other than granted by an Institute of Accountancy, subject of course to recognition thereof by the Institute."

2.5 Disabilities for purpose of Membership

2.5.1 Section 8 of the Act enumerates the circumstances under which a person is debarred from having his name entered in or borne on the Register of Members, as follows:

Notwithstanding anything contained in Section 4, a person shall not be entitled to have his name entered in or borne on the [Register of members]¹ 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 of members]²; or*
- (ii) is of unsound mind and stands so adjudged by a competent court; or*
- (iii) is an undischarged insolvent [or an undischarged bankrupt]³; or*
- [(iiia) [is declared bankrupt under the Insolvency and Bankruptcy Code, 2016; or]⁴*
- (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 [outside India]⁵, of an offence involving moral turpitude and punishable with []⁶ 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*

¹ Substituted for the word “Register” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

² *ibid*

³ Inserted pursuant to Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

⁴ *ibid*

⁵ Substituted for the words “without India” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

⁶ The words “transportation or” were omitted vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

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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 of Members]⁷ until the expiry of such period.*

- 2.5.2 Failure on the part of a person to disclose the fact that he suffers from any one of the disabilities aforementioned would constitute professional misconduct. The name of the person who is found to have been subject at any time to any of the disabilities aforementioned, can be removed from the Register of Members by the Council.

⁷ Substituted for the word "Register" vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

2.6 Removal from the [Register of Members] ¹

2.6.1 Section 20 of the Act provides that the Council may remove from the Register of Members 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 of members, 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 of members.*

2.6.2 This section also provides that it is mandatory to the Council to remove from the Register of members the name of any member in respect of whom an order has been passed under this Act for removing him from membership of the Institute.

2.6.3 If the name of any member has been removed from the Register of members under Clause (c) of sub-section(1) on receipt of an application, his name may be entered again in the Register of members 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 []²

¹ Substituted, for the word “Register” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

² Omitted vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

2.7 Procedure in Inquiries for Disciplinary Matters relating to misconduct of the members of the Institute

- 2.7.1¹ The Chartered Accountants (Amendment) Act, 2006, has for the first time added the provisions for imposition of fine as a punishment for the misconduct.
- 2.7.2 Sections 21, 21A, 21B, 21C, 22-A and 22-G of the Act read with The Chartered Accountants (Procedure of Investigations of Professional and Other Misconduct of Cases) Rules, 2007 have laid down the following procedure in regard to the investigation of misconduct of members which has been summarized as under:-
- (a)² On receipt of any information or complaint along with the prescribed fee, the Director (Discipline) will process the same for its registration and shall form a prima facie opinion on the alleged misconduct.

¹ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V "Misconduct" will come into effect from such date as is notified by the Government, The Paragraph 2.7.1 be read as :-

2.7.1A The Amendment No. 12 of 2022 has included provisions on liability of the Firm resulting from misconduct of a member being partner or owner of the Firm on the date of the alleged misconduct. The liability of Firm may be fixed and action may be taken against it as per the provisions of Section 21A(6) and (7), Section 21B(6) and (7) and Section 22G of the Act.

² Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V "Misconduct" will come into effect from such date as is notified by the Government,, The amended Paragraph 2.7.2 (a) will come into force w.e.f. _____ :-

(a) Within thirty days of receipt of an information or a complaint, the Director (Discipline) will process the same for its registration and shall decide whether it is actionable or is liable to be closed as non-actionable.

(b) The recommendations of Director (Discipline) on non-actionable complaint or information shall be submitted to the Board of Discipline within sixty days of its receipt and the Board of Discipline may, after looking into its merits refer such complaint or information to the Director (Discipline) for conducting further investigation.

(c) In actionable cases, the Director (Discipline) shall give an opportunity to the member or the firm, to submit a written statement within twenty-one days which may further be extended by another twenty-one days, for reasons to be recorded in writing.

(d) Upon receipt of the written statement, if any, the Director (Discipline) shall send a copy to the complainant or the informant, and the complainant or the informant shall, within twenty-one days of the receipt of such written statement, submit his rejoinder.

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(b)³ After the prima facie opinion is formed, the Director (Discipline) shall place the matter before the Board of Discipline or Disciplinary Committee in respect of the cases relating to the First Schedule or the Second Schedule to the Act as the case may be. Where the matter relates to both the Schedules, it shall be placed before the Disciplinary Committee only. Where the Director (Discipline) is of the opinion that there is no prima facie case the Board of Discipline may, if 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. Where the Director (Discipline) is of the opinion that there is a prima facie case, further action will be taken by the Board of Discipline or Disciplinary Committee, as the case may be.

(c)⁴ The Board of Discipline (in respect of matters relating to First

³ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V "Misconduct" will come into effect from such date as is notified by the Government, The amended Paragraph 2.7.2 (b) will come into force w.e.f. _____

(e) Upon receipt of the written statement and rejoinder, the Director (Discipline) shall submit a preliminary examination report within thirty days, if a prima facie case is made out against a member or a firm.

(f) In case a prima facie case is made out for any professional or other misconduct mentioned in the First Schedule, the Director (Discipline) shall submit the preliminary examination report to the Board of Discipline and where prima facie case is made out for any professional or other misconduct mentioned in the Second Schedule or in both the First Schedule and the Second Schedule, he shall submit a preliminary examination report to the Disciplinary Committee.

(g) A complaint or information filed by any authorised officer of the Central Government or a State Government or any statutory authority duly supported by an investigation report or relevant extract of the investigation report along with supporting evidence, shall be treated as preliminary examination report.

(h) Where no prima facie case is made out against the member or the firm, the Director (Discipline) shall submit such information or complaint with relevant documents to the Board of Discipline and the Board of Discipline may, if it agrees with the findings of the Director (Discipline), close the matter or in case of disagreement, itself proceed further or refer the matter to the Disciplinary Committee or advise the Director (Discipline) to further investigate the matter.

⁴ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V "Misconduct" will come into effect from such date as is notified by the Government, The amended Paragraph 2.7.2 (c) will come into force w.e.f. _____

(i) The Board of Discipline shall, on receipt of preliminary examination report from Director (Discipline), require the member or the firm, to submit a written statement within twenty-one days

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Schedule) has been empowered to pass the following orders:-

- (i) reprimand the member
- (ii) remove the name of the member from Register upto a period of three months
- (iii) impose such fine which may extend to rupees one lakh.

(d)⁵ The Discipline Committee (in respect of matters relating to

which may further be extended by another twenty-one days, in exceptional circumstances, for reasons to be recorded in writing.

- (j) The Board of Discipline shall conclude its inquiry within ninety days of the receipt of preliminary examination report from the Director (Discipline).
 - (k) Upon inquiry, if the Board of Discipline finds that such member is guilty of a professional or other misconduct mentioned in the First Schedule, it may pass an order within thirty days of such finding, after providing an opportunity of being heard to the member, taking any one or more of the following actions, namely:—
 - (i) reprimand the member and record it in the Register of members;
 - (ii) remove the name of the member or members from the Register of members up to a period of six months;
 - (iii) impose such fine as it may think fit which may extend to two lakh rupees.
 - (l) Where on the basis of evidence, the Board of Discipline is of the opinion that any such member who is a partner or owner of a firm, has been repeatedly found guilty of misconduct mentioned in the First Schedule during the last five years, the following action may also be taken against such firm, namely:—
 - (i) prohibit the firm from undertaking any activity or activities relating to the profession of a chartered accountant in practice for such period not exceeding one year; or
 - (ii) impose such fine as it may think fit, which may extend to twenty-five lakh rupees.
 - (m) Where a member or a firm fails to pay the fine imposed as mentioned above within such time as may be specified, the Council shall remove the name of such member or firm from the Register of members or Register of firms, for such period as it may think fit.
- ⁵ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V "Misconduct" will come into effect from such date as is notified by the Government, The amended Paragraph 2.7.2 (d) will come into force w.e.f. _____
- (n) The Disciplinary Committee shall, on receipt of preliminary examination report from Director (Discipline), require the member or the firm, to submit a written statement within twenty-one days, which may further be extended by another twenty-one days in exceptional circumstances, for reasons to be recorded in writing.
 - (o) The Disciplinary Committee shall conclude its inquiry within one hundred and eighty days of receipt of the preliminary examination report from the Director (Discipline) .
 - (p) Upon inquiry, if the Disciplinary Committee finds that a member is guilty of a professional or other misconduct mentioned in the Second Schedule or in both the First Schedule and the Second Schedule, it may pass an order within thirty days of such a finding, after providing an opportunity of being heard to the member, taking any one or more of the following actions, namely:—

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Second Schedule or Both Schedules when the misconducts are related to both the Schedules) has been empowered to pass the following orders:-

- (i) reprimand the member
 - (ii) remove the name of the member from the Register permanently or for such period as it may think fit.
 - (iii) impose such fine which may extend to rupees five lakhs.
- (e) The Director (Discipline), Board of Discipline and the Disciplinary Committee have powers of Civil Court under the Code of Civil Procedure, 1908 in respect of the following matters, namely,
- (i) summoning and enforcing attendance of any person and examining him on oath;
 - (ii) discovery and production of any document; and
 - (iii) receiving evidence on affidavit.
- (f)⁶ Any member of the Institute aggrieved of any order of the

-
- (i) reprimand the member and record it in the Register of members; or
 - (ii) remove the name of the member from the Register of members permanently or for such period, as it may think fit; or
 - (iii) impose such fine as it may think fit, which may extend to ten lakh rupees.

(q) Where on the basis of evidence, the Disciplinary Committee is of the opinion that any such member, who is a partner or owner of a firm has been repeatedly found guilty of misconduct mentioned in the Second Schedule or in both the First Schedule and the Second Schedule, during the last five years, the following actions may also be taken against such firm, namely:—

- (i) prohibit the firm from undertaking any activity or activities relating to the profession of a chartered accountant in practice for such period not exceeding two years; or
- (ii) suspend or cancel the registration of the firm and remove its name from the Register of firms permanently or for such period as it may think fit; or
- (iii) impose such fine as it may think fit, which may extend to fifty lakh rupees.

(r) Where a member or a firm fails to pay the fine imposed as mentioned above, the Council shall remove the name of such member or firm from the Register of members or Register of firms for such period, as it may think fit.

⁶ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V "Misconduct" will come into effect from such date as is notified by the Government, The amended Paragraph 2.7.2 (f) will come into force w.e.f. _____

Any member of the Institute or a firm aggrieved of any order of the Board of Discipline or the Disciplinary Committee imposing on such member or firm may prefer an appeal under Section

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Board of Discipline or the Disciplinary Committee may prefer an appeal under Section 22G to the Appellate authority constituted under the provisions of Section 22A – 22D of the Act. Such appeal has to be filed within 90 days from the date of communication of the order of Board of Discipline or the Disciplinary Committee, as the case maybe. It is also open to the Director (Discipline) to file appeal with the Appellate Authority against the order of the Board of Discipline or the Disciplinary Committee within 90 days after obtaining authorization of the Council.

- (g) The Appellate Authority while hearing an appeal against the order of the Board of Discipline or the Disciplinary Committee has the power to:
 - (i) confirm, modify or set aside the order;
 - (ii) impose any penalty or set aside, reduce, or enhance the penalty imposed by the order;
 - (iii) 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
 - (iv) pass such other order as the Authority thinks fit
- (h) The Appellate Authority shall give an opportunity of being heard to the parties concerned before passing any order.

2.7.3 The Disciplinary Mechanism is illustrated vide Flow Charts at **Appendix 'C'**.

22G to the Appellate authority constituted under the provisions of Section 22A – 22D of the Act. Such appeal has to be filed within 90 days from the date of communication of the order to such member or firm of Board of Discipline or the Disciplinary Committee, as the case maybe. It is also open to the Director (Discipline) to file appeal with the Appellate Authority against the order of the Board of Discipline or the Disciplinary Committee within 90 days after obtaining authorization of the Council.

2.8 Conduct of the Members in any other Circumstances:

S.22 ¹Professional 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 enquire into conduct of any member of the Institute under any other circumstances.

- 2.8.1 A member is liable to disciplinary action under Section 21 of the Chartered Accountants Act, if he is found guilty of any professional or “other misconduct”. This provision empowers the Director (Discipline) to enquire into any conduct of a member under any other circumstance. This is considered necessary because a Chartered Accountant is expected to maintain the highest standards and integrity even in his/her personal affairs and any deviation from these standards, would expose him/ her to disciplinary action. For example, a member who is found to have forged the will of a relative, may be liable to disciplinary action even though the forgery may not have been done in the course of his professional duty.
- 2.8.2 The question whether a particular act or omission constitutes “misconduct in any other circumstances” has to be decided on the facts and circumstances of each case. The judgement dated 10th September, 1957 of the Supreme Court in “Council of the Institute of Chartered Accountants of India and another vs. B. Mukherjee” (AIR

¹ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V “Misconduct” will come into effect from such date as is notified by the Government, The amended Paragraph will come into force w.e.f. _

S.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, on the part of any member of the Institute either in his individual capacity or as partner or owner of a firm, as mentioned 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 such member or firm, under any other circumstances.

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1958 SC 72) is also relevant. After examining the nature, scope and extent of the disciplinary jurisdiction, which can be exercised under the provisions of the Act, the Supreme Court observed as under: -

“We, therefore, take the view that, if a member of the Institute is found, prima facie, guilty of conduct, which, in the opinion of the Council renders him unfit to be a member of the Institute, even though such conduct may not attract any of the provisions of the Schedule, it would still be open to the Council to hold an enquiry against the member in respect of such conduct and a finding against him, in such an enquiry, would justify appropriate action being taken by the High Court.”

2.9 Penalty for falsely claiming to be a Member etc.

Section 24 provides that:-

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 practices as a Chartered Accountant, shall be punishable on first conviction with fine which may extend to ¹[one lakh rupees], and on any subsequent conviction with imprisonment which may extend to six months or with fine which may extend to ²[five lakh rupees], or with both.*

¹ Substituted for the word “one thousand rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

² Substituted for the word “five thousand rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

2.10 Companies not to engage in Accountancy

Section 25 provides that:-

- (1) *No Company, whether incorporated in India or elsewhere, shall practice as chartered accountants.*

Explanation – For the removal of doubts, it is hereby declared that the “company” shall include any limited liability partnership which has company as its partner for the purposes of this section.

- (2) *If any company contravenes this provision 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 ¹[which shall not be less than two lakh rupees but] which may extend on first conviction to ²[ten lakh rupees] , and on any subsequent conviction ³[with fine which shall not be less than four lakh rupees but which may extend to twenty lakh rupees].*

2.10.1 Guidelines for Corporate Form of Practice

To empower the members to face the emerging challenges in the service sector as well as to equip them for the opportunities in the non-audit service area, the Council in 2006 decided to allow members in practice to render Management Consultancy and Other Services in Corporate form in accordance with the Guidelines (see **Volume-III**).

¹ Inserted pursuant to Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

² Substituted for the word “one thousand rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

³ Substituted for the word “to five thousand rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

2.11 Unqualified Persons not to sign Documents

Section 26 provides that:-

- (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.*
- (2) *Any person contravenes this provision shall, without prejudice to any other proceedings, which may be taken against him, be punishable on first conviction with a fine not less than [one lakh rupees]¹ but which may extend to [five lakh rupees]², 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 [two lakh rupees]³ but which may extent to [ten lakh rupees]⁴ or with both.*

¹ Substituted for the word “five thousand rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

² Substituted for the word “one lakh rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

³ Substituted for the word “ten thousand rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

⁴ Substituted for the word “two lakh rupees” vide Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

2.12 Maintenance of Branch Offices

2.12.1 In terms of Section 27 of the Act if a Chartered Accountant in practice or a firm of Chartered Accountants has more than one office in India, each one of such offices should be in the separate charge of a member of the Institute. Failure on the part of a member or a firm to have a member in charge of its branch and a separate member in case of each of the branches, where there are more than one, would constitute professional misconduct.

However, the Council has given exemption to members practising in hill areas subject to certain conditions. The conditions are:-

1. Such members/firms be allowed to open temporary offices in a city in the plains for a limited period not exceeding three months in a year.
2. The regular office need not be closed during this period and all correspondence can continue to be made at the regular office.
3. The name board of the firm in the temporary office should not be displayed at times other than the period such office is permitted to function as above.
4. The temporary office should not be mentioned in the letter-heads, visiting cards or any other documents as a place of business of the member/firm.
5. Before commencement of every winter it shall be obligatory on the member/firm to inform the Institute that he/it is opening the temporary office from a particular date and after the office is closed at the expiry of the period of permission, an intimation to that effect should also be sent to the office of the Institute by registered post.

2.12.2 The above conditions apply to any additional office situated at a place beyond 50 kms from the municipal limits in which any office is situated.

2.12.3 It is necessary to mention that the Chartered Accountant in charge of the branch of another firm should be associated with him or with the firm either as a partner or as a paid assistant. If he is a paid assistant,

he must be in whole time employment with him.

2.12.4 However, a member can be in charge of two offices if they are located in one and the same accommodation. In this context, the Council's decisions are set out below:

- (1) *Definition of Office* – “A place where a name-board is fixed or where such place is mentioned in the letter-head or any other documents as a place of business.”
- (2) With regard to the use of the name-board, there will be no bar to 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 a name-board of an individual member and not of the Firm.
- (3) The requirement of Section 27 in regard to a member being in charge of an office of a Chartered Accountant in practice or a firm of such Chartered Accountants shall be satisfied only if the member is actively associated with such office. Such association shall be deemed to exist if the member resides in the place where the office is situated for a period of not less than 182 days in a year or if he attends the said office for a period of not less than 182 days in a year or in such other circumstances as, in the opinion of the Executive Committee, establish such active association.
- (4) In view of the Council's decision, however, the exemption is granted under proviso to Section 27(1) of the Chartered Accountants Act, 1949 to a member or a firm of Chartered Accountants in practice to have a second office without such second office being under the separate charge of a member of the Institute, provided (a) the second office is located in the same premises, in which the first office is located or (b) the second office is located in the same city, in which the first office is located or (c) the second office is located within a distance of 50 km. from the municipal limits of a city, in which the first office is located. A member having two offices of the type referred to above, shall have to declare, which of the two offices is his main office, which would constitute his professional address.
- (5) The expression “member” in the above context shall mean, where more than one member is designated as in charge of

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an office, then any such member and in other cases more than one member where a change in the designated member in charge of an office takes place during the year.

SCHEDULES TO THE ACT:-

2.13 Professional/other Misconduct by the Members as provided in Schedules

- 2.13.1 ¹The expression “*professional or other misconduct*” within the meaning of Section 22 of the Chartered Accountants Act, 1949 shall be deemed to include any *act(s) or omission(s) provided in any of the two Schedules viz the First Schedule and the Second Schedule to the Act but nothing in that section shall be construed to limit or abridge in any way the power conferred or duty cast on the Director(Discipline) under Subsection (1) of Section 21 to enquire into the conduct of any member of the Institute under any circumstances.*
- 2.13.2 The First Schedule is divided into four parts. Part I of the First Schedule deals with the professional misconduct of a member in practice which would have the effect generally of compromising his position as an independent person. Part II deals with professional misconduct of members of the Institute in service. Part III deals with the professional misconduct of members of the Institute generally and Part IV deals with other misconduct of Members *of the Institute* generally.
- 2.13.3 The Second Schedule is divided into three parts. Part I deals with professional misconduct in relation to a member in practice and Part II deals with professional misconduct of members *of the Institute* generally and Part III deals with other misconduct of Members *of the Institute* generally.

¹ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Chapter-V “Misconduct” will come into effect from such date as is notified by the Government, The amended Paragraph will come into force w.e.f. _

The expression “*professional or other misconduct*” within the meaning of Section 22 of the Chartered Accountants Act, 1949 shall be deemed to include any *act(s) or omission(s)* on the part of any member of the Institute either in his individual capacity or as partner or owner of a firm *provided in any of the two Schedules viz the First Schedule and the Second Schedule to the Act but nothing in that section shall be construed to limit or abridge in any way the power conferred or duty cast on the Director(Discipline) under Subsection (1) of Section 21 to enquire into the conduct of such member or firm of the Institute under any circumstances.*

THE FIRST SCHEDULE

- 2.14. A member *who is* engaged in the profession of accountancy whether in practice or in service should conduct/restrict his action in accordance with the provisions contained in the respective parts of this Schedule. If the member is found guilty of any of the acts or omissions stated in any of the respective parts of this Schedule, he/she shall be deemed to be guilty of professional *and/or other* misconduct.

2.14.1 PART I OF FIRST SCHEDULE

Professional Misconduct in relation to Chartered Accountants in Practice

- 2.14.1.1 A *Chartered Accountant in practice* shall be deemed to be guilty of *professional misconduct*, if he:-

Clause (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;*

- 2.14.1.1(i) The above clause is intended to safeguard the public against unqualified accountants practising under the cover of qualified accountants. It ensures that the work of the accountant will be carried out by a Chartered Accountant who may be his partner or his employee and who would work under his control and supervision.

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2.14.1.2 A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he :-

Clause (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.;

2.14.1.2(i) It is in order for a member to share his fees or profits with another member of the Institute and/or a firm of Chartered Accountants. A practicing Member of the Institute can share fees or profits arising out of his professional business with such members of other professional bodies *or with such other persons having such qualifications as may be prescribed from time to time by the Council.*

2.14.1.2(ii) The Council has prescribed (Regulation 53A and 53B of the Chartered Accountants Regulations, 1988) the professional bodies which are as under:-

53A. Other professional bodies

(1) *For the purposes of Items (2), (3) and (5) of Part I of the First Schedule to the Act, a person has to be a member of any of the following professional bodies, namely:-*

(a) *The Institute of Company Secretaries of India established under the *Companies Act, 1980 (No.56 of*

* to be read as Company Secretaries Act, 1980

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1980);

- (b) ***The Institute of Cost and Works Accountants of India established under the Cost and Works Accountants Act, 1959 (No.23 of 1959);*
 - (c) *Bar Council of India established under the Advocates Act, 1961 (No.25 of 1961);*
 - (d) *The Indian Institute of Architects established under the Architects Act, 1972 (No.20 of 1972);*
 - (e) *The Institute of Actuaries of India established under the Actuaries Act, 2006 (No.35 of 2006).*
- (2) *The membership of the professional bodies or institutions outside India whose qualifications relating to accountancy are recognised by the Council under sub-section (2) of section 29 shall also be taken into consideration for the purposes of Items (2), (3) and (5) of the Part I of the First Schedule to the Act.*
- (3) *For the purposes of Items (2), (3), (4) and (5) of Part I of the First Schedule to the Act, the following shall be the persons qualified in India, namely:-*
- (i) *Company Secretary within the meaning of the Company Secretaries Act, 1980;*
 - (ii) *Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959;*
 - (iii) *Actuary within the meaning of the Actuaries Act, 2006;*
 - (iv) *Bachelor in Engineering from a University established by law or an Institution recognised by law;*
 - (v) *Bachelor in Technology from a University established by law or an institution recognised by law;*
 - (vi) *Bachelor in Architecture from a University established*

^{**} to be read as The Institute of Cost Accountants of India

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by law or an institution recognised by law;

- (vii) *Bachelor in Law from a University established by law or an institution recognised by law;*
- (viii) *Master in Business Administration from Universities established by law or technical institutions recognised by All India Council for Technical Education.*

53B. Membership of professional bodies for partnership

- (1) *For the purposes of entering into partnership under Item (4) of Part I of the First Schedule to the Act, a person shall be a member of any of the following professional bodies, namely:-*
 - (a) *Company Secretary, member, The Institute of Company Secretaries of India, established under the Company Secretaries Act, 1980;*
 - (b) *Cost Accountant, member, The Institute of Cost and Works Accountants of India established under the Cost and Works Accountants Act, 1959;*
 - (c) *Advocate, member, Bar Council of India established under the Advocates Act, 1961;*
 - (d) *Engineer, member, The Institution of Engineers, or Engineering from a University established by law or an institution recognized by law.*
 - (e) *Architect, member, The Indian Institute of Architects established under the Architects Act, 1972;*
 - (f) *Actuary, member, The Institute of Actuaries of India, established under the Actuaries Act, 2006.*
- (2) *Professional bodies or institutions outside India whose qualifications relating to accountancy are recognised by the Council under sub-section (2) of section 29 of the Act.*

Percentage of Fees payable to Registrar of Co-operative Societies

- 2.14.1.2(iii) The Institute came across certain Circulars/Orders issued by the Registrars of various State Co-operative Societies wherein it has been mentioned that certain amount of audit fee is payable to the

concerned State Government and the auditor has to deposit a percentage of his audit fee in the state Treasury by a prescribed challan within a prescribed time of the receipt of Audit fee. In recent past, the Council considered the issue and while noting that the Government is asking auditors to deposit such percentage of their audit fee for recovering the administrative and other expenses incurred in the process, the Council decided that as such there is no bar in the Code of Ethics to accept such assignment wherein a percentage of professional fee is deducted by the Government to meet the administrative and other expenditure.

Goodwill

2.14.1.2(iv) When there are two or more partners and one of them dies, the widow of the deceased partner can continue to receive a share of the profit of the firm. A legal representative, say widow of a deceased partner, would be entitled to share the profits only where the partnership agreement contains a provision that on the death of the partner his widow or legal representative would be entitled to such payment for goodwill by way of sharing of fees or otherwise for some specified period. There could not be any sharing of fees between the widow or the legal representative of the proprietor of a single member firm and the purchaser of the goodwill of the firm on the death of the Sole proprietor of the firm. Payment of goodwill to the widow is permissible in such cases only for the goodwill of the firm and to enable such payments to be made in installments provided the agreement of the sale of goodwill contains such a provision. These payments even if they are spread over the specified period should not be linked up with participation in the earnings of the firm. The widow of a partner when the partnership agreement does not contain a provision entitling her to share in profits, would not be entitled to such profits.

The Council has taken the view, in a case referred to it that it is not permissible for the widow of a deceased member, whose professional work consisted mainly of income-tax representation,

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to receive a monthly lump-sum payment for a period of five years or a specified percentage of income.

The Council of the Institute considered the issue whether the goodwill of a proprietary firm of Chartered Accountant can be sold/transferred to another eligible member of the Institute, after the death of the proprietor concerned and came to the view that the same is permissible. Accordingly, the Council passed the following resolution with a view to mitigating the hardship generally faced by the families after the death of such proprietors:

"RESOLVED THAT the sale/transfer of goodwill in the case of a proprietary firm of Chartered Accountant to another eligible member of the Institute shall be permitted

(a) in respect of cases where the death of the proprietor concerned occurred on or after 30.8.1998.

Provided such a sale is completed/effectuated in all respects and the Institute's permission to practice in deceased's proprietary firm name is sought within a year of the death of such proprietor concerned. In respect of these cases, the name of the proprietary firm concerned would be kept in abeyance (i.e. not removed on receipt of information about the death of the proprietor as is being done at present) only upto a period of one year from the death of proprietor concerned as aforesaid:

(b) in respect of cases where the death of the proprietor concerned occurred on or after 30.8.1998 and there existed a dispute as to the legal heir of the deceased proprietor.

Provided the information as to the existence of the dispute is received by the Institute within a year of the death of the proprietor concerned. In respect of these cases, the name of proprietary firm concerned shall be kept in abeyance till one year from the date of settlement of dispute.

(c) in respect of cases where the death of the proprietor concerned had occurred on or before 29th August, 1998 (irrespective of the time lag between the date of death of

the proprietor concerned and the date of sale/transfer of goodwill completed/to be completed).

Provided such a sale/transfer is completed/effectuated and the Institute's permission to practice in the deceased's proprietary firm name is sought for by 28th August, 1999 and also further provided that the firm name concerned is still available with the Institute."

In case of a partnership firm when all the partners die at the same time, the above Council decision would also be applicable.

Procedure to be fulfilled to transfer the goodwill of Firm of Chartered Accountants

Transfer of goodwill of the firms of Chartered Accountants is permitted by the Institute subject to fulfillment of the following procedures:-

1. An application in writing should be forwarded by a member, holding Certificate of Practice, intimating his intention to purchase goodwill.
2. The application should be made within 1 year from the date of death of the member.
3. The application should be sent along with the following details:-
 - a. "Death Certificate" of the deceased member; and
 - b. (i) A draft sale deed for sale/transfer of goodwill entered into between the legal heir/s of the deceased and the member intending to purchase goodwill.
(ii) The sale of goodwill deed must be very clear as to the amount of consideration and payment thereof in one or more installment(s) to be paid within a specified period. The consideration should not be contingent upon future profits.
4. Documents, such as, Succession certificate or Will, Legal Heir Certificate or an affidavit sworn by all legal heir/s stating that there is/are no other legal heir to the deceased member.

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5. Legal heir, in this context, means Spouse, Child/Children and Parents.
6. If the agreement is entered into by one of the legal heirs, 'No Objection' from the other legal heirs, except those minor, are also required to be submitted. In case of minor, 'No Objection' is to be obtained from the guardian.
7. The member intending to purchase the goodwill should give an advertisement about his intention to purchase such goodwill, and the advertisement should spell out that anyone having objection thereto should send the objection directly to the respective Regional Office/Decentralised office (address of which shall be indicated in the advertisement). A copy of the advertisement so published should be sent by the intending purchaser to the concerned Regional Office/Decentralised office.
8. Within 30 days of the receipt of the approval, for transfer of goodwill, Form '18' is required to be filed by the member purchasing the goodwill.

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2.14.1.3 A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:-

Clause (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;*

2.14.1.3(i) Just as a member cannot share his fees with a non-member, he is also not permitted to receive and share the fees of others except for sharing with Member of such professional body or other person having *such* qualification as may be prescribed (Regulation 53A of The Chartered Accountants Regulations, 1988) by the Council for the purpose of Clause (2), (3) and (5) of Part I of First Schedule. Such a restriction is necessary so that a Chartered Accountant who is often required to engage or to recommend for engagement by his clients, the services of the members of other professions, cannot share the fees received by other persons who are otherwise not permitted by the Council in terms of provision of this clause.

Referral fees amongst members

2.14.1.3(ii) It is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him.

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2.14.1.4 A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:-

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.*

Multi-Disciplinary partnerships

2.14.1.4(i) The Council has prescribed list of persons and professional bodies qualified for partnership with Chartered Accountants under Regulation 53A(3) and 53B of The Chartered Accountants Regulations, 1988.

A Chartered Accountant in practice is not permitted to enter into partnership with any person other than a Chartered Accountant in practice or such other persons as may be prescribed by the Council from time to time. In this regard, the Council has issued the Guidelines for the Formation of Multi-disciplinary Partnerships.

Partnership in Insolvency Professional Entity or Registered Valuer Entity

2.14.1.4(i)(a) A Chartered Accountant in practice can become partner in an Insolvency Professional Entity or a Registered Valuer Entity, being a firm registered with the Insolvency and Bankruptcy Board of India, consisting of professionals mentioned in Regulation 53B of Chartered Accountants Regulations, 1988.

Members may be Director Simplicitor

2.14.1.4(ii) It may be relevant to note that the existing directions of the Council in relation to allowing a member in practice to be Director Simplicitor in a company (simultaneously with Directors who are non CAs or non-practicing CA), cannot be compared with the

partner/ designated partner in a non-professional LLP. Therefore, as of now, a member in practice cannot become a partner/ designated partner (non-working and non-remuneration drawing) in an LLP not carrying out professional work.

However, partnership between members of the Institute and members of foreign professional bodies are permissible provided members of such bodies are eligible for the membership of the Institute.

Qualifications of institutions, organisations, etc. earlier permitted by the Council

- 2.14.1.4(iii) Effective from December 8, 1997, no fresh enrolment of persons with the qualifications of institutions, organisations, etc. earlier permitted by the Council (see **Appendix 'D'**) is permissible. Accordingly, partnership between members of the Institute and members of these foreign professional bodies is not permissible from the above dates.

Partnership confined to the practice of the profession of Chartered Accountants

- 2.14.1.4(iv) The Council while considering the judgement dated 10th July, 1990 of Allahabad High Court in the case of Iqbal Hamid vs. ICAI (W.P. No. 1823 of 1988) and another judgement dated 9th February, 1989 of Bombay High Court in the case of Nalin S. Sualy vs. ICAI (W.P. No. 4906 of 1985) clarified that under this clause the prohibition on entering into partnership with non-Chartered Accountants was confined to the practice of the profession of Chartered Accountants.

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2.14.1.5 *A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:-*

Clause (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;*

2.14.1.5(i) "A man must stand erect, and not be kept erect by others"- Marcus Aurelius.

This dictum though applicable for a man in every walk of life is more so in the case of a professional. He must not seek work through a person who is not his employee or partner or by means which are not open to a Chartered Accountant. The work will follow him due to the respect that he commands for his professional talent, and skill and by the confidence he is able to inspire by his reputation. All forms of canvassing on that account are regarded unethical and are prohibited. It may further be noted that the acts of partners and employees of the Firm towards securing professional work are subject to the provisions of Clauses (6) and (7) of Part-I of First Schedule of Chartered Accountants Act, 1949.

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2.14.1.6 *Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:-*

Clause (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;*
- (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;*

2.14.1.6(i) It is an elaboration of the principle propounded in the preceding clause enjoining that for securing professional work the help of others should not be sought. This clause further enjoins on a member not to solicit professional work by means of advertisement, circular, personal communication or interview or by any other means. The members should not adopt any indirect methods to advertise their professional practice with a view to gain publicity and thereby solicit clients or professional work. Such a restraint must be practised so that members may maintain their independence of judgement and may be able to command the respect of their prospective clients.

2.14.1.6(ii) In the early years of their professional career, members may find this restraint inconvenient and irksome. A question may arise in their minds as to how they would be able to find professional work if they are not permitted to advertise or solicit work.

2.14.1.6(iii) A little reflection would show that professional work cannot be secured either by advertisement or by circulars or by solicitation. It can only be obtained by a member gradually building confidence in his ability and integrity. The service rendered by an accountant is of a personal and intimate nature and its value can be appraised only by personal contact and experience. A public advertisement is likely to lead to an impression that the

professional person is over-anxious to win confidence which however will have the opposite effect. The satisfaction of clients would be the best advertisement which would lead to other clients. Unabashed advertisement would affect the public esteem in which the profession is held and would act to the disadvantage of its members. An advertisement is not a key to success in the profession. It is the quality of service which attracts and retains the clients.

2.14.1.6(iv) Some forms of soliciting work which the Council has prohibited, are discussed below:-

A. Advertisement and Notes in the press

Members should not advertise for soliciting work or advertise in a manner which could be interpreted as soliciting or offering to undertake professional work. They are also not permitted to use the less open method of circulating letters to a small field of possible clients. Personal canvassing or canvassing for clients of a previous employer through the help of the employees are also not permitted.

The exceptions to the above rule are-

- (i) A member may request another Chartered Accountant in practice for professional work.
- (ii) A member may advertise changes in partnerships or dissolution of a firm, or of any change in the address of practice and telephone numbers. Such announcements should be limited to a bare statement of facts and consideration given to the appropriateness of the area of distribution of the newspaper or magazine and number of insertions.
- (iii) A member is permitted to issue a classified advertisement in the Journal/Newsletter of the Institute intended to give information for sharing professional work on assignment basis or for seeking professional work on partnership basis or salaried employment in the field of accounting profession provided it only contains the accountant's name, address, telephone, mobile number, fax number, E-

mail address, website address and address(es) of social Networking sites of members. However, mere factual position of experience and area of specialization, relevant to seek response to the advertisement, are permissible.

B. Application for empanelment for allotment of audit and other professional work

The government departments, government Companies/ corporations, courts, co-operative societies and banks and other similar institutions prepare panels of Chartered Accountants for allotment of audit and other professional work. Where the existence of such a panel is within the knowledge of a member, he is free to write to the concerned organization with a request to place his name on the panel. However, it would not be proper for the Chartered Accountant to make roving enquiries by applying to any such organization for having his name included in any such panel.

It is permissible to quote fees on enquiries being received or respond to tenders from the organizations requiring professional services, which maintain such panel.

C. Responding to Tenders, Advertisements and Circulars

It is not prohibited to the members to respond to tenders and requests made by users of professional work. This is however subject to conditions that may be issued by the Council from time to time. The Council has issued Guidelines No. 1-CA(7)/03/2016 dated 7th April 2016 (see **Volume-III**) which stipulate that a member of the Institute in practice shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for Chartered Accountants, such as audit and attestation services. However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants. *The “minimum fee” for this purpose should be such that it commensurates with size, value, volume, manpower requirement and nature of work (as decided by*

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Council at its 388th Meeting held on 6th and 7th February, 2020) .

The clarifications on the various issues pertaining to practical situations on the applicability of above Notification are mentioned hereunder:-

- (1) All tenders issued on or after 7th April 2016 will be covered under this notification/guideline.
- (2) The notification is effective for all tenders issued/hosted on or after 7th April, 2016. Therefore, a member of the Institute in practice can accept such assignment where advertisement of tender was issued prior to 7th April, 2016.
- (3) A member of the Institute in practice shall not respond to any tender in areas of services which are exclusively reserved for Chartered Accountants by statute viz. Audit and Attestation Services such as Audit under Companies Act 2013, Income Tax Act 1961, etc. In any State under the local statute if audit and attestation services are exclusively meant for Chartered Accountants only, the member will not be allowed to respond to such tender. However, a member may respond to tenders as mentioned above wherever the minimum fee of the assignment is prescribed in the tender document itself. The fees quoted by the member shall not be less than the minimum fee mentioned in the tender.
- (4) A member can respond to tenders which are open to other Professionals apart from CAs; even though in the tender document, only CAs may have been invited to respond.
- (5) A member can respond to assignments where quotations have been called for from practicing members/firms through individual letters.
- (6) A member can respond to tenders where only technical bid has been asked for, followed by financial quotations request from the shortlisted members through individual letters.
- (7) Non-adherence to these guidelines could lead to

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disciplinary action as this is a Council decision.

- (8) The Institute can call for any papers/documents related to bid submitted by members in response to respective tender.

EMD/Security Deposit

The Council is of the view that while interference with the practices prevailing for requirement of EMD/Deposit is not required. However, on having received complaint/ instance of exorbitant EMD/Deposit, the Ethical Standards Board may look into the matter on case to case basis.

A cost sheet be maintained by members of the Institute responding to tenders, incorporating details of the costs being incurred therein having regard to number of persons involved, hours to be spent, etc., so that the same may be called for by the Institute for perusal.

D. Publication of Books, Articles or Presentation

It is not permissible for a member to mention in a book or an article published by him, or a presentation made by him, any professional attainment(s), whether of the member or the firm of chartered accountants, with which he is associated. However, he may indicate in a book, article or presentation the designation "Chartered Accountant" as well as the name of the firm.

E. Issue of Greeting Cards or Invitations

The Council does not approve of the issue of greeting cards or personal invitations by members indicating their professional designation, status and qualifications etc. However, the Council is of the view that the designation "Chartered Accountant" as well as the name of the firm may be used in greeting cards, invitations for marriages and religious ceremonies and any invitations for opening or inauguration of office of the members, change in office premises and change in telephone numbers, provided that such greeting cards or invitations etc. are sent only to clients, relatives

and friends of the members concerned.

F. Advertisement for Silver, Golden, Platinum or Centenary celebrations

It is not permitted to advertise the events organised by a Firm of Chartered Accountants. However, considering the need of interpersonal socialization/relationship of the members through such get together occasions, the advertisement for Silver, Golden, Diamond, Platinum or Centenary celebrations of the Chartered Accountants Firms may be published in newspaper or newsletter.

G. Sponsoring Activities

- (a) A member in practice or a Firm of Chartered Accountants is not permitted to sponsor an event. **However, the Council may approve sponsorship from members and Firms in certain Continuing Professional Education (CPE) events. The members or Firms may sponsor such CPE events.
- (b) Members sponsoring activities relating to Corporate Social Responsibility may mention their individual name with the prefix "CA". However, the mention of Firm name or CA Logo is not permitted.

H. Advertisement of Teaching/Coaching activities by members

The members engaged in teaching /coaching activities, while advertising such teaching /coaching activities, shall comply with the following*:-

Re: Advertising by members in practice engaged in Coaching/Teaching activities

Regulation 190A of the Chartered Accountants Regulations, 1988 provides that a chartered accountant in practice shall not engage in any business or occupation other than the profession of

* As incorporated pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020

** Where the Council has permitted sponsorship from members and Firms, the deliverables permitted to members and Firms in lieu of the said sponsorship will also be issued .

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accountancy, except with the permission granted in accordance with a resolution of the Council.

The Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for part-time or full time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should not exceed 25 hours a week in order to be able to undertake attest functions.

Keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, an advertisement of Coaching /teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

In view of the above, such members are advised to abstain from advertising their association with Coaching /teaching activities through hoardings, posters, banners and by any other means, failing which they may be liable for disciplinary action, as per the provisions of Chartered Accountants Act, 1949 and Rules/Regulations framed thereunder.

Subject to the above prohibition, such members may put, outside their Coaching /teaching premises, sign board mentioning the name of Coaching/teaching Institute, contact details and subjects taught therein only. As regards the size and type of sign board, the Council Guidelines as applicable to Firms of Chartered Accountants would apply.

I. Sharing Firm Profile with prospective Client

It is not permitted to share Firm profile with a prospective Client unless it is in response to a proposed client's specific query, and otherwise not prohibited to be used by the client.

J. Television or Movie Credits

While sharing name of the member or Firm of Chartered Accountants for inclusion in Television or Movie Credits, it must be taken care of that exhibition of name is not made differently as compared to other entries in the credits. This will also be permitted at other places where credits to different disciplines are customarily mentioned.

K. Soliciting professional work by making roving enquiries

It is not permissible for a member to address letters, emails or circulars specifically to persons who are likely to require services of a Chartered Accountant since it would tantamount to advertisement.

L. Seeking work from Professional Colleagues

The issue of an advertisement or a circular by a Chartered Accountant, seeking work from professional colleagues on any basis whatsoever except as provided in paragraph 2.14.1.6 (iv) A(iii) above would be in violation of this clause.

M. Scope of representation which an auditor is entitled to make under Section 140(4) of the Companies Act, 2013

The right to make representation does not mean that an auditor has any prescriptive right or a lien to an audit. The wording of his representation should be such that, apart from the opportunity not being abused to secure needless publicity, it does not tantamount directly or indirectly to canvassing or soliciting for his continuance as an auditor. The letter should merely set out in a dignified manner how he has been acting independently and conscientiously through the term of office and may, in addition, indicate if he so chooses, his willingness to continue as auditor if reappointed by the shareholders.

N. Acceptance of original professional work by a member emanating from the client introduced to him by another member

The Council has decided that a member should not accept the original professional work emanating from a client introduced to

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him by another member. If any professional work of such client comes to him directly, it should be his duty to ask the client that he should come through the other member dealing generally with his original work.

O. Giving Public Interviews

While giving any interview or otherwise furnishing details about themselves or their firms in public interviews or to the press or at any forum, the members should ensure that, it should not result in publicity. Due care should be taken to ensure that such interviews or details about the members or their firms are not given in a manner highlighting their professional attainments. Any detail which is given must, in addition to meeting the above requirements, be given only as a response to a specific question, and of factual nature only.

P. Members and/or firms who publish advertisements under Box numbers

Members/Firms are prohibited from inserting advertisements for soliciting clients or professional work under box numbers in the newspapers. This practice is in violation of this clause.

Q. Educational Videos, Audios or podcasts

While the videos, audios or podcasts of educational nature may be uploaded on the internet, it should not contain any contact details or website address. However, the designation "Chartered Accountant" as well as the name of the firm, wherein the member is a partner/ proprietor may be mentioned.

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2.14.1.7 *A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he :-*

Clause (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;*

- 2.14.1.7(i) This clause prohibits advertising of professional attainments or services of a member. However, the services can be advertised in a restricted way through a write up subject to the Guidelines of the Council issued from time to time. Refer chapter 3 of the book. It also restrains a member from using any designation or expression other than that of a Chartered Accountant in documents through which the professional attainments of the member would come to the notice of the public.

Other Designations

- 2.14.1.7(ii) It is improper for a Chartered Accountant in practice to state on his professional documents that he is an Income-tax Consultant, Cost Accountant, Company Secretary, Cost Consultant or a Management Consultant.

While noting that it had already allowed its members to appear before the various authorities including Company Law Board, Income Tax Appellate Tribunal, Sales Tax Tribunal where the law has permitted the same, so far as the designation "Corporate Lawyer" is concerned, the Council was of the view that as per the existing provisions of law, a Chartered Accountant in practice is

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not entitled to use the designation “Corporate Lawyer”.

A member must not use the designation such as ‘Member of Parliament’, ‘Municipal Councilor’ nor any other functionary in addition to that of Chartered Accountant.

A member empanelled as Insolvency Professional or Registered Valuer can mention “Insolvency Professional” or “Registered Valuer” respectively on his visiting card and letter head.

Permission to mention qualifications of certain Institutions

- 2.14.1.7(iii) The members are permitted to mention a title on their visiting cards to indicate membership of a foreign Institute of Accountancy, which has been recognised by the Council e.g. Chartered Accountants – Australia and New Zealand (CAANZ), Institute of Chartered Accountants of Nepal (ICAN), Malaysian Institute of Certified Public Accountants (MICPA), Chartered Professional Accountants of Canada (CPA Canada), Chartered Professional Accountants of Australia (CPA Australia), South African Institute of Chartered Accountants (SAICA), Institute of Certified Public Accountants (CPA Ireland) and Institute of Chartered Accountants in England and Wales (ICAEW),

Date of setting-up practice

- 2.14.1.7(iv) The date of setting up the practice by a member or the date of establishment of the firm on the letter heads and other professional documents etc. should not be mentioned.

Practice as Advocate

- 2.14.1.7(v) Members of the Institute in practice who are otherwise eligible may practise as advocates subject to the permission of the Bar Council but in such case, they should not use designation ‘Chartered Accountant’ in respect of the matters involving the practice as an advocate. In respect of other matters they should use the designation ‘Chartered Accountant’ but they should not use the designation ‘Chartered Accountant’ and ‘Advocate’ simultaneously.

Practice as Company Secretary/Cost Management Accountant

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- 2.14.1.7(vi) Members of the Institute in practice who are otherwise eligible may also practice as Company Secretaries and/or Cost Management Accountants. Such members shall, however, not use designation/s of the aforesaid Institute/s simultaneously with the designation "Chartered Accountant".

It is clarified that in the event of the permission being granted to a member in practice to also hold COP of sister Institute(s)/Bar Council, such a member be treated as a member in full-time practice.

Mention of Firm name except on Professional Documents

- 2.14.1.7(vii) It is not proper for a Firm of Chartered Accountants to use the designation 'Chartered Accountant' except on professional documents, visiting cards, letter heads or sign boards and under the circumstances clarified under Para 2.14.1.6 (iv) (E) of Clause (6). However, an individual member may use the prefix "CA" with his name.

Notice in the Press relating to the Success in an Examination

- 2.14.1.7(viii) Notice in the press relating to the success in an examination of an individual candidate, should not contain any element of undesirable publicity either in relation to the articled/audit assistant or an employee or the member or the firm with whom he was served.

It is usual for local papers to publish details of the examination success of local candidates. Some biographical information is often included. The rule aforementioned is not intended to discourage the printing of news of local interest but is intended to indicate the need for restraint. The candidate's name and address, school and local background, examination passed with details of any prize or place gained, the name of the principal, firm and town in which the principal practices may be published.

Reports and Certificates

- 2.14.1.7(ix) The reports and certificates issued by a Chartered Accountant bring him to the notice of the public in a greater or lesser degree. It is therefore incumbent upon him to ensure that the extent and

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manner of publication of certificates are limited to what is necessary to enable the report or certificate to serve its proper purpose. The members may however note that they should use letterhead of their Firm for issuing reports and certificates.

Appearance of Chartered Accountants on Electronic Media (including Internet)

- 2.14.1.7(x) Members may appear on television, films and Internet and agree to broadcast in the Radio or give lectures at forums and may give their names and describe themselves as Chartered Accountants. Special qualifications or specialised knowledge directly relevant to the subject matter of the programme may also be given. Firm name may also be mentioned, however, any exaggerated claim or any kind of comparison is not permissible. What he may say or write must not be promotional of him or his firm but must be an objective professional view of the topic under consideration.

Important Appointments or views of Public Importance

- 2.14.1.7(xi) Publicity is permitted for appointments to positions of local or national importance or for the views of members on matters of similar importance. Mention of the membership of the Institute is desirable in such cases. What should be aimed at is to achieve suitable publicity for the Institute and its members generally. Members giving talks or lectures or attending conference may describe themselves as Chartered Accountants only when they are acting in their capacity as Chartered Accountants. However, reference to the professional firm of the member should not be given.

Organising Training Courses, Seminars etc. for his staff

- 2.14.1.7(xii) A Chartered Accountant in practice holding training courses, seminars etc. for his staff may also invite the staff of other Chartered Accountants and clients to attend the same. However, undue prominence should not be given to the name of the Chartered Accountant in any booklet or document issued in connection therewith.

A Chartered Accountant in practice conducting webcast may invite his staff, the staff of other Chartered Accountants, his clients and acquaintances to attend the same. However, no invite should be sent to other persons, although there would be no bar on others to attend.

Writing Articles or Letters to the Press

2.14.1.7(xiii) Members writing articles or letters to the Press on subjects connected with the profession may give their names and use the description Chartered Accountants as well as name of the firm in which he is a partner or proprietor.

Size of Sign Board

2.14.1.7(xiv) With regard to the size of sign board for his office that a member can put up, it is a matter in which the members should exercise their own discretion and good taste while keeping in mind the appropriate visibility and illumination (limited to the sake of visibility). However, use of glow signs or lights on large-sized boards as is used by traders or shop-keepers is not permissible. A member can have a name board at the place of his residence with the designation of a Chartered Accountant, provided it is a name plate or name board of an individual member and not of the firm.

Public Announcements with details of Directors

2.14.1.7(xv) The Council's attention has been drawn to the fact that more and more Companies are appointing Chartered Accountants as Directors on their Boards. The prospectus or public announcements issued by these Companies often publish descriptions about the Chartered Accountant's expertise, specialisation and knowledge in any particular field or add appellations or adjectives to their names. Attention of the members in this context is invited to the provisions of Clause (6) and (7) of Part I of the First Schedule to the Chartered Accountants Act.

In order that the inclusion of the name of a member of the Institute in the prospectus or public announcements or other public

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communications issued by the Companies in which the member is a director does not contravene the above noted provisions, it is necessary that the members should take necessary steps to ensure that such prospectus or public announcements or public communications do not advertise his professional attainments and also that such prospectus or public announcements or public communications do not directly or indirectly amount to solicitation of clients for professional work by the member. While it may be difficult to lay down a rigid rule in this respect, the members must use their good judgement, depending upon the facts and circumstances of each case to ensure that the above noted provisions are complied with both in letter and spirit.

It is advisable for a member that as soon as he is appointed as a director on the Board of a Company, he should specifically invite the attention of the management of the Company to the aforesaid provisions and should request that before any such prospectus or public announcements or public communication mentioning the name of the member concerned, is issued, the material pertaining to the member concerned should, as far as practicable be got approved by him. The use of the expression 'Chartered Accountant' is permissible. However, the member must ensure that descriptions about his expertise, specialisation and knowledge in any particular field or other appellations or adjectives are not published with his name. Particulars about directorships held by the member in other Companies can, however, be given, but the name of the firm of Chartered Accountants in which the member is a partner, should not be given.

Network Firms and Networking Guidelines

2.14.1.7(xvi) The Council has permitted Network amongst the Firms registered with the Institute. The firms constituting a Network are permitted to mention the name of Network on all professional stationery. The Network can also mention in its professional stationery the names of Firms being part of its Network. A Network registered with the Institute can have its own website (Refer 'Website

Guidelines at page 163 and Volume-III for Networking Guidelines) Once a Network is registered with the Institute, it will be necessary for such a Network and its constituent entities to comply with the Code of Ethics. It is not permissible for the Firms to join Networks not registered with the Institute (by whichever name called).

Use of Logo

2.14.1.7(xvii) For use of logos by Members on letter heads, visiting cards etc. the Council had decided that the logos unconnected with the first letter of the name of the firm or its partners or proprietors would not be permitted for use by members in practice/firms of Chartered Accountants on their letter heads, visiting cards etc. as the same would have amounted to advertisement or smacking of publicity. Subsequent to above, the Institute came across cases of registration of firm name in circumvention of the provisions contained in the Regulation 190 of the Chartered Accountants Regulations, 1988. The members/firms by themselves or through engineered name had been seeking to obtain firm name approval based on the name of the partner/s selected in the manner that logo of the firm would be identical to the firm name which would have not otherwise been permissible as firm name under Regulation 190.

In order to ensure compliance with the Regulations, the Council at its meeting held in December 1997, therefore, decided that the use of logo/monogram of any kind/form/ style/design/colour etc. whatsoever on any display material or media e.g. paper stationery, documents, visiting cards, magnetic devices, internet, sign board, by the members in practice and/or the firm of Chartered Accountants, be prohibited. Use/printing of member/firm name in any other manner tantamounting to logo/monogram was also prohibited.

CA India Logo

2.14.1.7(xviii) To promote the brand of CA profession and responding to the long felt need to have a symbol of CA Profession in India, ICAI came up with a unique logo which could be used by all members,

whether in practice or not. Encapsulating the current beliefs, attitudes and values of the profession, the CA Logo seeks to enhance the identity of the members. The new logo of CA India, issued in 2023, reflects the brand's connection to India while retaining its existing identity. The new logo consists of the letters 'CA' in blue colour with a tri colour tick mark (upside down) with white background. The blue colour not only stands out on any background but also denotes creativity, innovativeness, knowledge, integrity, trust, truth, stability and depth. The upside-down tick mark, typically used by the Chartered Accountants, has been included to symbolize the wisdom and value of the professional.

'India' is also added in the logo, as it epitomizes the Institute's connection to India First Approach and commitment to serve the Indian economy in public interest.

The Council has decided that use of CA logo in the stamp is permissible, subject to CA logo guidelines (**see Volume-III**).

Guidelines for elected Members of the Council/ office Bearers of the Regional Council in the context of use of designation etc. and manner of Printing of Letter-heads and visiting cards

- 2.14.1.7(xix) The guidelines/directions laid down by the Council as revised by the Council from time to time for use of designation etc. and manner of printing letter-heads and visiting cards of the President, Vice-President of the Institute, Members of the Council, Chairmen of various non-standing Committees of the Institute; Chairmen, other office bearers and Members of the Regional Councils; Chairmen, other office-bearers and Members of the Managing Committees of the Branches are appearing in **Volume-III**.

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2.14.1.8 *A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he :-*

Clause (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;*

- 2.14.1.8(i) It must be pointed out that professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant who is a member of the Institute or a certified auditor. The underlying objective is that the member may have an opportunity to know the reasons for the change in order to be able to safeguard his own interest, the legitimate interest of the public and the independence of the existing accountant. It is not intended, in any way, to prevent or obstruct the change. When making the enquiry from the retiring auditor, the one proposed to be appointed or already appointed should primarily find out whether there are any professional or other reasons why he should not accept the appointment.
- 2.14.1.8(ii) It is important to remember that every client has an inherent right to choose his accountant; also that he may, subject to compliance with the statutory requirements in the case of limited Companies, make a change whenever he chooses, whether or not the reasons which had impelled him to do so are good and valid. The change normally occurs where there has been a change of venue of business and a local accountant is preferred or where the partner who has been dealing with the clients affairs retires or dies; or where temperaments clash or the client has some good reasons to feel dissatisfied. In such cases, the retiring auditor should always accept the situation with good grace.

Grounds for non-Acceptance of Audit

- 2.14.1.8(iii) The existence of a dispute as regards the fees may be root cause of an auditor being changed. This would not constitute valid professional reasons on account of which an audit should not be accepted by the member to whom it is offered. However, in the

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case of an undisputed audit fees for carrying out the statutory audit under the Companies Act, 2013 or various other statutes having not been paid, the incoming auditor should not accept the appointment unless such fees are paid. In respect of other dues, the incoming auditor should in appropriate circumstances use his influence in favour of his predecessor to have the dispute as regards the fees settled. The professional reasons for not accepting an audit would be:

- (a) Non-compliance of the provisions of Sections 139 and 141 of the Companies Act, 2013 as mentioned in Clause (9) of the Part - I of First Schedule to The Chartered Accountants Act, 1949 ; and
- (b) Non-payment of undisputed Audit Fees by auditees other than in case of Sick Units or of a company for which insolvency resolution process has been initiated and the Resolution Professional has been appointed, for carrying out the Statutory Audit under the Companies Act, 2013 or various other statutes; and
- (c) Issuance of a qualified report.

2.14.1.8(iv) In the first two cases, an auditor who accepts the audit would be guilty of professional misconduct. In this connection, attention of members is invited to the Guidelines on Ethical Issues, 2025 appearing in Volume-III. In the said Guidelines, Council has explained that the *provision for audit fee in accounts signed by both the auditee and the auditor along with applicable taxes and other expenses, if any, incurred by the auditor in connection with the audit, shall be considered as “undisputed audit fee” and “sick unit” shall mean a unit registered for not less than five years, which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth.*

Recourse in case of Qualified Audit Report

2.14.1.8(v) In the last case, however, he may accept the audit if he is satisfied that the attitude of the retiring auditor was not proper and justified. If, on the other hand, he feels that the retiring auditor had qualified

the report for good and valid reasons, he should refuse to accept the audit. There is no rule, written or unwritten, which would prevent an auditor from accepting the appointment offered to him in these circumstances. However, before accepting the audit, he should ascertain the full facts of the case. For nothing will bring the profession to disrepute so much as the knowledge amongst the public that if an auditor is found to be “inconvenient” by the client, he could readily be replaced by another who would not displease the client and this point cannot be too over-emphasised.

Fees pending due to non-availability of Previous Auditor

2.14.1.8(vi) Where the Previous Auditor is not available for accepting payment of undisputed audit fees, and it is not otherwise possible to transfer the payment to him electronically, the Incoming Auditor may advise the client to purchase Demand Draft of the amount equivalent to undisputed Audit Fees of retiring auditor, and may accept the Audit assignment after verifying the same. It will be the duty of the Incoming auditor to ensure the payment of undisputed Audit Fees of the retiring auditor at the earliest possibility.

Course of action in case of change of Auditorship

2.14.1.8(vii) What should be the correct procedure to adopt when a prospective client tells you that he wants to change his auditor and wants you to take up his work? There being two persons involved, the Company and the old auditor, the former should be asked whether the retiring auditor had been informed of the intention to change. If the answer is in the affirmative, then a communication should be addressed to the retiring auditor. If, however, it is learnt that the old auditor has not been informed, and the client is not willing to make the first move, it would be necessary to ask him the reason for the proposed change. If there is no valid reason for a change, it would be healthy practice not to accept the audit. If he decides to accept the audit he should address a communication to the retiring auditor.

As stated earlier, the object of the incoming auditor, in communicating with the retiring auditor is to ascertain from him

whether there are any circumstances which warrant him not to accept the appointment. For example, whether the previous auditor has been changed on account of having qualified his report or he had expressed a wish not to continue on account of something inherently wrong with the administration of the business. The retiring auditor may even give out information regarding the condition of the accounts of the client or the reason that impelled him to qualify his report. In all these cases it would be essential for the incoming auditor to carefully consider the facts before deciding whether or not he should accept the audit, and should he do so, he must also take into account the information while discharging his duties and responsibilities.

Duty of Retiring Auditor

2.14.1.8(viii) On the request of the Incoming Auditor to the retiring auditor for providing known information regarding any facts or other information of which, in the opinion of the retiring auditor, the Incoming auditor needs to be aware before deciding whether to accept the engagement, the retiring auditor shall provide the information diligently.

Sometimes, the retiring auditor fails without justifiable cause except a feeling of hurt because of the change, to respond to the communication of the Incoming auditor. So that it may not create a deadlock, the incoming auditor appointed can act, after waiting for a reasonable time for a reply.

Certificate of Posting not a conclusive proof of communication

2.14.1.8(ix) The Council has taken the view that a mere posting of a letter under certificate of posting is not sufficient to establish communication with the retiring auditor unless there is some evidence to show that the letter has in fact reached the person communicated with. A Chartered Accountant who relies solely upon a letter posted under certificate of posting therefore does so at his own risk.

The view taken by the Council has been confirmed in a decision by the Rajasthan High Court in J.S. Bhati vs. The Council of the

Institute of the Chartered Accountants of India and another. (Pages 72-79 of Vol. V of Disciplinary Cases published by the Institute - Judgement delivered on 29th August, 1975). The following observations of the Court are relevant in this context:-

“Mere obtaining a certificate of posting in my opinion does not fulfill the requirements of clause (8) of Schedule I as the presumption under Section 114 of the Evidence Act that the letter in due course reached the addressee cannot replace that positive degree of proof of the delivery of the letter to the addressee which the letters of the law in this case require. The expression ‘in communication with’ when read in the light of the instructions contained in the booklet ‘Code of Conduct’ cannot be interpreted in any other manner but to mean that there should be positive evidence of the fact that the communication addressed to the outgoing auditor by the incoming auditor reached his hands. Certificate of posting of a letter cannot, in the circumstances, be taken as positive evidence of its delivery to the addressee.”

Positive Evidence of Delivery required

- 2.14.1.8(x) Members should therefore communicate with a retiring auditor in such a manner as to retain in their hands positive evidence of the delivery of the communication to the addressee. In the opinion of the Council, the following would in the normal course provide such evidence:-
- (a) Communication by a letter sent through “Registered/Speed Post with Acknowledgement due or
 - (b) By hand against a written acknowledgement, or
 - (c) Acknowledgement of the communication from retiring auditor’s vide email address registered with the Institute or his last known official email address, or
 - (d) Unique Identification Number (UDIN) generated on UDIN portal (subject to guidelines issued by the Council in this regard)

Premises found Locked

- 2.14.1.8(xi) The communication received back by the Incoming Auditor with

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“Office found Locked” written on the Acknowledgement Due shall be deemed as having been delivered to the retiring auditor.

Firm not found at the given Registered address

- 2.14.1.8(xii) If the Communication sent by the Incoming auditor is received back with remarks “No such office exists at this address” or such remark similar/ near thereto, and the address of communication is the same as registered with the Institute on the date of dispatch, the letter will be deemed to be delivered, unless the retiring auditor proves that it was not really served and that he was not responsible for such non-service.

As a matter of professional courtesy and professional obligation it is necessary for the new auditor appointed to act jointly with the earlier auditor and to communicate with such earlier auditor.

Special Audit under Income Tax Act, 1961

- 2.14.1.8(xiii) It would be a healthy practice if a Auditor appointed for conducting special audit under the Income Tax Act, 1961 communicates with the member who has conducted the Statutory Audit.

The Council has also laid down the detailed guidelines on the subject as under:-

Communication required for all kinds of audit

- 2.14.1.8(xiv) The requirement for communicating with the previous auditor being a Chartered Accountant in practice would apply to all types of Audit viz., Statutory Audit, Tax Audit, GST Audit, Internal Audit, Concurrent Audit or any other kind of audit.

Communication in case of Assignments done by other professionals

- 2.14.1.8(xv) A Communication is mandatorily required for all types of Audit/Report where the previous auditor is a Chartered Accountant. In case of assignments done by other professionals not being Chartered Accountants, it would also be a healthy practice to communicate.

Lack of time in acceptance of Government Audits

- 2.14.1.8(xvi) Although the mandatory requirement of communication with

previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.

Meaning of Terms

2.14.1.8(xvii) Various doubts have been raised by the members about the terms “audit”, “previous auditor”, “Certificate” and “report”, normally while interpreting the aforesaid Clause (8). These terms need to be clarified.

- The definition of “Audit” is given in the Framework for Assurance Engagements (the Framework) issued by the Institute which is as under:

“For assurance engagements relating to historical financial information in particular, such engagements which provide reasonable assurance are called audits”.

The Framework also describes the objective of reasonable assurance engagements which is as under:

The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner’s conclusion.

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- The term “previous auditor” means the immediately preceding auditor who held same or similar assignment comprising same/similar scope of work. For example, a Chartered Accountant in practice appointed for an assignment of physical verification of inventory of raw materials, spares, stores and finished goods, before acceptance of appointment, must communicate with the previous auditor being a Chartered Accountant in practice who was holding the appointment of physical verification of inventory of raw materials, stores, finished goods and fixed assets. The mandatory communication with the previous auditor being a Chartered Accountant is required even in a case where the previous auditor happens to be an auditor for a year other than the immediately preceding year.

The term “Previous auditor” may also be connotated as “retiring auditor”, “outgoing auditor” or “preceding auditor” .

- SA 700(Revised) states the objectives of the auditor as (a) forming an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and (b) expressing clearly that opinion through a written report. As explained in the Institute’s publication viz., Guidance Note on Reports and Certificates for Special Purposes’(Revised 2016)’ (which governs reports other than those which are issued in audits or reviews) which states that the word ‘certificate’ as described in the laws and regulations or even in the contracts that an entity might have entered into can normally be associated with reasonable assurance. A practitioner is expected to provide either a reasonable assurance (about whether the subject matter of examination is materially misstated) or a limited assurance (stating that nothing has come to the practitioner’s attention that causes the practitioner to believe that the subject matter is materially misstated). A practitioner is not expected to reduce the engagement risk to zero. Therefore, whenever a practitioner is required to give a “certificate” or a “report” for special

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purpose, the practitioner needs to undertake a careful evaluation of the scope of the engagement, i.e., whether the practitioner would be able to provide reasonable assurance or limited assurance on the subject matter.

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2.14.1.9 A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he:-

Clause (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 (1 of 1956) ¹[or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for time being in force] in respect of such appointment have been duly complied with;*

2.14.1.9(i) The Companies Act, 2013 provides for the requirements which an auditor appointed in respect of a Company should satisfy himself about, before he accepts the appointment. The relevant provisions are contained in Section 139 to 141 of Companies Act, 2013 (erstwhile Section 225 of Companies Act, 1956). Section 139 contains several provisions in the matter of appointment of auditors in different circumstances and situations whereas Section 140 lays down the procedure which must be followed whenever a Company desires to change its auditors. Section 141 contains the provisions of eligibility, qualifications and disqualifications of auditors. In addition to the requirements prescribed under the Companies Act 2013, the Incoming auditor shall comply with the provisions of any other applicable law governing the appointments of an auditor of the Company. For example, in the case of a banking company or an insurance company, the auditor's appointment shall be subject to compliance with the respective laws governing the Banking or Insurance. In order that the validity of the appointment of an auditor is not challenged or objected to by shareholders or the retiring auditors at a later date, it has been made obligatory on the Incoming Auditor to ascertain from the Company that the appropriate procedure in the matter of appointment has been faithfully followed.

¹ Inserted by the Chartered Accountants, the Cost and Works Accountants and the Company Secretaries (Amendment) Act, 2022 and came into force w.e.f. 10th May, 2022.

The following guidelines have been issued by the Council for this purpose:-

- 2.14.1.9(ii) Clause (9) of Part I of the First Schedule to Chartered Accountants Act, 1949 provides that a member in practice shall be deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a Company without first ascertaining from it whether the requirements of Sections 139 to 141 of the Companies Act, 2013, or any other law pertaining to appointment of auditors for time being in force in respect of such appointment have been duly complied with. Under this clause it is obligatory on the incoming auditor to ascertain from the Company that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment.
- 2.14.1.9(iii) A question arises as to what is the duty of the Incoming Auditor under this clause and what steps he should take in order to ascertain whether the Company has complied with the provisions of Sections 139 and 140 of the Companies Act, 2013.
- 2.14.1.9(iv) The incoming auditor, before accepting an audit engagement, shall ensure compliance with the eligibility, qualification and disqualification prescribed under Section 141 of the Companies Act, 2013. This includes ascertaining that:
- a) The member or the firm shall be qualified for appointment, i.e., a Chartered Accountant in practice, or a firm where the majority of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.
 - b) The member shall not be disqualified under Section 141(3), which outlines specific disqualifications for appointment as an auditor of a company.
 - c) The member, after being appointed, becomes disqualified under any of the conditions listed in sub-section 141(3), he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.
- 2.14.1.9(v) The Incoming Auditor shall ensure where a firm including

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Limited Liability partnership is appointed as an auditor of a Company, only partners who are Chartered Accountants shall be authorized to act and sign on behalf of the firm.

- 2.14.1.9(vi) The steps to be taken by an Auditor of a Company who is appointed in the following circumstances are indicated in the paragraphs below:
- (a) When the auditor appointed is the First Auditor of the Company.
 - (b) When the auditor is appointed in place of an existing auditor who has resigned or has been removed or has ceased to hold office for any other reason.
 - (c) When the auditor or auditors appointed by the Company were holding this office jointly with others and one or more of such joint auditors are not reappointed.
 - (d) When one or more of the auditors appointed by the Company was/were not holding this office earlier.
- 2.14.1.9(vii) The procedure to be followed by a Company for appointment of an auditor is laid down in Section 139 of the Companies Act, 2013.
- 2.14.1.9(viii) The first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days of the date of registration of the Company. The auditor so appointed will hold office till the conclusion of the first Annual General Meeting.
- 2.14.1.9(ix) In the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall within ninety days at an extraordinary general meeting appoint such auditor.
- 2.14.1.9(x) The first auditor appointed by the Board of Directors can be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner.

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- 2.14.1.9(xi) Subsequent appointment of the auditor is to be made at the Annual General Meeting of the Company who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting
- 2.14.1.9(xii) Before making appointment or reappointment of an auditor, the Company has to obtain a written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor. The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141 of Companies Act, 2013.
- 2.14.1.9(xiii) The company shall inform the auditor concerned of his or firms appointment, and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed.
- 2.14.1.9(xiv) If the retiring auditor has given a notice in writing of his unwillingness to be reappointed, the Company can appoint any other auditor.
- 2.14.1.9(xv) The members of the Company can pass a special resolution at the Annual General Meeting to the effect that the retiring auditor shall not be reappointed. They can also pass a resolution at that meeting to appoint some-one else in place of the retiring auditor.
- 2.14.1.9(xiv) Except in the circumstances mentioned in 2.14.1.9 (xiv) and 2.14.1.9 (xv) above, a retiring auditor shall be reappointed if he is otherwise qualified for such reappointment.
- 2.14.1.9(xvii) Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company as contained in Section 139(10).
- 2.14.1.9(xviii) The Board of Directors, except for the situation covered by 2.14.1.9 (xix) below, can fill any casual vacancy in the office of the auditor within thirty days under Section 139(8)(i). Until this appointment is made the remaining auditor, in case there are joint auditors, can function as auditor of the Company.
- 2.14.1.9(xix) If the casual vacancy is caused by the resignation of an auditor,

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such vacancy can only be filled by the Company at a General Meeting convened within three months of the recommendation of the Board. The auditor appointed to fill any casual vacancy shall hold office until the conclusion of the next Annual General Meeting.

2.14.1.9(xx) The Company can remove the auditor appointed under Section 139 before the expiry of his term of office only by a resolution passed at any General Meeting and after obtaining previous approval of the Central Government.

2.14.1.9(xxi) Section 140 of the Companies Act, 2013 lays down the procedure for appointment of auditor other than the retiring auditor and for removal of existing auditor.

The procedure to be followed by the Company is mentioned in paragraphs 2.14.1.9 (xxii) to 2.14.1.9 (xxix):-

2.14.1.9(xxii) If a member of the Company wants that the retiring auditor should not be reappointed or that an auditor other than the retiring auditor should be appointed, he has to give a special notice u/s 140(4) of Companies Act, 2013 to the Company for a resolution at the Annual General Meeting for this purpose.

2.14.1.9(xxiii) Such special notice is also required to be given if a member of the Company wants to remove the auditor before the expiry of his term of office.

2.14.1.9(xxiv) The special notice should be given before the date of the General Meeting when the question of appointment or reappointment of the auditor is to be considered.

2.14.1.9(xxv) On receipt of the special notice of such a resolution, the Company has to send a copy of the same to the retiring auditor forthwith, as required u/s 140(4) of Companies Act, 2013.

2.14.1.9(xxvi) The Company is also required to send the special notice to the members of the Company at least seven days before the Meeting as per the provisions of Section 115 read with Section 20 of the Companies Act, 2013. According to these provisions, a document may be served on a company or an officer thereof by sending it

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to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed.

2.14.1.9(xxvii) After receipt of the above notice, the retiring auditor can submit his representation to the members of the Company. Such representation, on receipt by the Company, is required to be sent to its members as required under Section 140(4) of the Companies Act.

2.14.1.9(xxviii) The representation received from the retiring auditor will have to be considered at the General Meeting of the Company before the resolution proposed by the concerned member is passed. The resolution proposed by the concerned member can be passed only in accordance with the provisions of Section 114 of the Companies Act, 2013.

2.14.1.9(xxix) Under Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949, the incoming auditor has to ascertain whether the Company has complied with the provisions of the above sections. The word "ascertain" means "to find out for certain". This would mean that the incoming auditor should find out for certain as to whether the Company has complied with the provisions of Sections 139 and, 140 of the Companies Act, 2013 as well as any other relevant law governing the appointment of auditors, if applicable. In this respect, it would not be sufficient for the incoming auditor to accept a certificate from the management of the Company that the provisions of the above sections have been complied with. It is necessary for the incoming auditor to verify the relevant records of the Company and ascertain as to whether the Company has, in fact, complied with the provisions of the above sections. If the Company is not willing to allow the incoming auditor to verify the relevant records in order to enable him to ascertain as to whether the provisions of the above sections have been complied with, the incoming auditor should not accept the audit assignment.

When the appointment of an auditor is subject to compliance with the provisions of other law pertaining to appointments of auditor:-

2.14.1.9(xxx) The auditor of the Company shall ascertain whether any industry/sector specific legal provisions or regulatory frameworks are applicable to the appointments of auditor. Accordingly, the auditor shall ensure compliance with the relevant law, including the statute, Ordinance, order, bye-law, rule, regulation, notification, etc. governing the appointments. For example, where the appointment of auditors is with respect to listed companies, Auditor shall ensure compliance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other provisions regarding qualification and rotation etc.

It is suggested that the incoming auditor should verify the following records of the Company:-

- 2.14.1.9(xxxi) If the appointment of the auditor is being made for the first time after incorporation of the Company, the auditor should verify as to whether the Board of Directors have passed the resolution for his appointment within thirty days of the date of registration of the Company.
- 2.14.1.9(xxxii) If the Board of Directors have not appointed the first auditor but the appointment is being made by a general meeting of the Company, the auditor should verify as to whether a proper notice convening the general meeting has been issued by the Company and whether the resolution has been validly passed at the general meeting of the Company.
- 2.14.1.9(xxxiii) If the appointment is being made to fill a casual vacancy, the incoming auditor should verify as to whether the Board of Directors have powers to fill the casual vacancy and whether the Board of Directors have passed the resolution filling the casual vacancy.
- 2.14.1.9(xxxiv) If the vacancy has arisen due to resignation of the auditor, the incoming auditor should see as to whether a proper resolution filling the vacancy has been passed at the General Meeting of the Company.
- 2.14.1.9(xxxv) If the vacancy has arisen as a result of removal of the auditor before the expiry of his term of office, the incoming auditor

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should see that special resolution has been passed at the General Meeting of the Company and that the previous approval of the Central Government has been obtained by the Company.

- 2.14.1.9(xxxvi) Where the auditor other than the retiring auditor is proposed to be appointed, the incoming auditor should ascertain whether the provisions of Sections 139, 140 and 141 or any other law pertaining to appointments of auditor for time being in force have been complied with. These provisions equally apply where an auditor who was jointly holding office with another auditor or auditors and any one or more of such joint auditors has not been reappointed.
- 2.14.1.9(xxxvii) For the purpose of ascertaining whether the Company has complied with the provisions of Section 140 of the Companies Act the incoming auditor should verify the records of the Company in respect of the following matters:-
- a. Whether a member of the Company has given special notice of the resolution as required under Section 140 (4) of the Companies Act, 2013. The notice shall be sent by members to the company not earlier than three months but at least fourteen days before the date of the meeting at which the resolution is to be moved, exclusive of the day on which the notice is given and the day of the meeting. A true copy of this notice should be obtained by the incoming auditor.
 - b. Whether this special notice has been sent to all the members, of the Company as required under Section 115 of Companies Act, 2013 at least 7 days before the date of the General Meeting.
 - c. Whether this special notice has been sent to the retiring auditor forthwith as required under Section 140 (4) .
 - d. Whether the representation received from the retiring auditor has been sent to the members of the Company as required under Section 140 (4) .

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- e. Whether the representation received from the retiring auditor has been considered at the general meeting and the resolution proposed by the special notice has been properly passed at the general meeting.

2.14.1.9(xxxviii) As regards the mode of sending the notice of the resolution to the members of the Company as provided in Sections 139 and 140 and section 20 to be followed for service of documents which is as under:-

- (A) A document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed.
- (B) As regards the mode of sending the notice of the resolution to the retiring auditor as provided in Sections 224 & 225 of Companies act, 1956 (equivalent Sections being Section 139 & 140 of Companies 2013), attention is invited to the Department of Company Affairs circular dated 17.10.1981 issued to all Chambers of Commerce, which is reproduced below:-

“I am directed to say that it has been reported by the Institute of Chartered Accountants of India that difficulties are being experienced by retiring Auditors in the operation of the provisions of Section 225 of the Companies Act, 1956 whenever any appointment of a new auditor takes place. Such difficulties arise because of the fact that the copy of the special notice required to be served u/s 225(2) of the Act on the retiring auditors are not effectively served and proof of such service is not available. To obviate such difficulties; therefore, it is advisable that the copy of the special notice u/s 225(2) of the Act should be sent to the retiring auditors by Registered A/D post.”

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- (C) Accordingly, it is necessary for the incoming auditor to satisfy himself that the notice provided for in Sections 139 & 140 of Companies Act, 2013 has been effectively served on the outgoing auditor (e.g. by seeing that the notice has been duly served through hand delivery or by Regd. Post with A.D.). Production of a certificate of posting by the Company would not be adequate for the purpose of the incoming auditor satisfying himself about compliance with Sections 139/140. Acknowledgement received from the outgoing auditor would be one of the forms in which such satisfaction can be obtained.

2.14.1.9(xxxix) A copy of the relevant minutes of the general meeting where the above resolution is passed duly verified by the Chairman of the meeting should also be obtained by the incoming auditor for his records.

2.14.1.9(xli) Sometimes the annual general meeting is adjourned without conducting any business or after conducting business in respect of some of the items on the agenda. The items in respect of which the business is conducted may or may not include the item relating to appointment of auditors. Under Section 139(1) the retiring auditor holds office till the conclusion of every sixth annual general meeting. Therefore, when the annual general meeting is adjourned in the circumstances stated above, the retiring auditor will continue to hold the office of auditor till the adjourned meeting is held and the business listed in the agenda of the meeting is concluded. In case a new auditor is appointed at the original meeting (which is adjourned) such auditor can assume office only after the conclusion of such adjourned meeting.

2.14.1.9(xli) If any annual general meeting is adjourned without appointing an auditor, no special notice for removal or replacement of the retiring auditor received after the adjournment can be taken note of and acted upon by the Company, since in terms of Section 115 of the Companies Act, special notice should be given to the Company at least fourteen clear days before the meeting in which the subject matter of the notice is to be considered. The meeting contemplated in Section 115

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undoubtedly is the original meeting. Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company mentioned in Section 139.

- 2.14.1.9(xlii) If the incoming auditor is satisfied that the Company has complied with the provisions of Sections 139 and 140 of the Companies Act, he should first communicate with the outgoing auditor in writing as provided in Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949 before accepting the audit assignment.

Unjustified removal of auditors

- 2.14.1.9(xliii) In order to examine various ethical issues and safeguard the independence of the Auditors, the Council has set up a Ethical Standards Board (ESB). This Board examines various issues concerning professional ethics governing the members of the Institute which are either raised by the members or are taken up based on their importance. The recommendations of the Board are forwarded to the Council for its consideration. This Board is also charged with the responsibility of looking into the cases of removal and resignation of auditors and making an appropriate report to the Council. The following guidelines have been issued for the Board for looking into the cases of Removal of Auditors:
- A. Where an auditor resigns his appointment as an auditor of a Company or does not offer himself for reappointment as auditor of such Company, he shall send a communication, in writing, to the Board of Directors of the Company giving reasons therefor, if he considers that there are professional reasons connected with his resignation or not offering himself for re-appointment which, in his opinion, should be brought to the notice of the Board of Directors, and shall send a copy of such communication to the Institute. It shall be obligatory on the incoming auditor, before accepting appointment, to obtain a copy of such communication from

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the Board of Directors and consider the same before accepting the appointment.

- B. Where an auditor, though willing for re-appointment has not been reappointed, he shall file with the Institute a copy of the statement which he may have sent to the management of the Company for circulation among the shareholders. It shall be obligatory on the incoming auditor before accepting the appointment, to obtain a copy of such a communication from the Company and consider it, before accepting the appointment.
- C. The Ethical Standards Board, on a review of the communications referred to in paras (A) and (B), may call for such further information as it may require from the incoming auditor, the outgoing auditor and the Company and make a report to the Council in cases where it considers necessary.
- D. The above procedure is also followed in the case of removal of auditors by the government and other statutory authorities.

As the Members are aware, the Institute has a Ethical Standards Board (ESB) to examine various issues of and to address the grievances of unjustified removal of auditors.

For the Mission Statement, Terms of Reference and Procedure to be followed by the Board for dealing with the cases of Unjustified Removal of Auditors, see the **Appendix 'E'**.

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2.14.1.10 *A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he :-*

Clause (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;*

2.14.1.10(i) What distinguishes a profession from a business is that professional service is not rendered with the sole purpose of a profit motive. Personal gain is one but not the main or the only objective. Professional opinion, therefore, frowns upon methods where payment is made to depend on the basis of results. It is obvious that a person who is to receive payment in direct proportion to the benefit received by his client, may be tempted to exaggerate the advantage of his service or may adopt means which are not ethical. It will have the effect of undermining his integrity and impairing his independence. Therefore, the members are prohibited from charging or accepting any remuneration based on a percentage of the profits or on the happening of a particular contingency such as, the successful outcome of an appeal in revenue proceedings.

2.14.1.10(ii) Professional services should not be offered or rendered under an arrangement whereby no fee will be charged unless a specified finding or result is obtained or where the fee is otherwise contingent upon the findings or results of such services. However, fee should not be regarded as being contingent if fixed by a Court or other public authority.

2.14.1.10 (iii) The members may quote or accept Audit fees based on range of turnover or on percentage of turnover of the Auditee.

2.14.1.10(iv) The Council of the Institute has however framed Regulation 192 which exempts members from the operation of this Clause in certain professional services. The said Regulation 192 is reproduced below:-

192. Restriction on fees

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No Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on a percentage of profits, or which are contingent upon the findings, or results of such work:

Provided that:

- (a) in the case of a receiver or a liquidator, the fees may be based on a percentage of the realisation or disbursement of the assets;*
- (b) in the case of an auditor of a co-operative society, the fees may be based on a percentage of the paid up capital or the working capital or the gross or net income or profits; and*
- (c) in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of the property valued.*
- * [(d) in the case of certain management consultancy services as may be decided by the resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;*
- (e) in the case of certain fund raising services, the fees may be based on a percentage of the fund raised;*
- (f) in the case of debt recovery services, the fees may be based on a percentage of the debt recovered;*
- (g) in the case of services related to cost optimisation, the fees may be based on a percentage of the benefit derived; and*
- (h) any other service or audit as may be decided by the Council]*

Note: Following activities have been decided by the Council under "h" above :-

* Inserted by Notification No. 1-CA (7)/145/2012 published in Part III, Section 4 of the Gazette of India, Extraordinary, dated 1st Aug., 2012

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- ^{**}(i) *Insolvency Professional, the fees may be based on percentage of recovery/assets for the services rendered under Insolvency and Bankruptcy Code, 2016 and rules framed thereunder.*
- ^{***}(ii) *In the case of Non-Assurance Services to Non-Audit Clients, the fees may be charged on contingent basis.*

^{**} As decided by the Council at its 362nd Meeting held on 6th - 8th Feb., 2017

^{***} As decided by the Council at its 379th Meeting held on 17th – 18th Dec., 2018

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2.14.1.11A *Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he :-*

Clause (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, (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;*

2.14.1.11(i) This is a provision introduced to restrain a member in practice from engaging himself in any business or occupation other than that of Chartered Accountant except when permitted by the Council to be so engaged. The objective is to restrain members from carrying on any other business in conjunction with the profession of accountancy and combining such work with any business which is not in keeping with the dignity of the profession. Another reason for the introduction of such prohibition is that a Chartered Accountant, if permitted to enter into all kinds of business, would be able to advertise for his other business and thereby secure an unfair advantage in his professional practice.

2.14.1.11(ii) The Council, on a very careful consideration of the matter, has formulated Regulations 190A & 191 which are reproduced below, specifying the activities with which a member in practice can associate himself with or without the permission of the Council.

190A. Chartered Accountant in practice not to engage in any other business or occupation

A Chartered Accountant in practice shall not engage in any business or occupation other than the profession of accountancy, except with the permission granted in accordance with a resolution of the Council.

Please refer to Appendix (9) of the Chartered Accountants Regulations, 1988, (see **Appendix 'F'**).

191. Part-time employments a Chartered Accountant in practice may accept

Notwithstanding anything contained in Regulation 190A but subject to the control of the Council, a Chartered Accountant in practice may act as a liquidator, trustee, executor, administrator, arbitrator, receiver, adviser or representative for costing, financial or taxation matter, or may take up an appointment that may be made by the Central Government or a State Government or a court of law or any other legal authority or may act as a Secretary in his professional capacity, provided his employment is not on a salary-cum-full-time basis.

- 2.14.1.11(iii) The Council has considered the question of permitting members in practice to become a Director, Managing Director, full time/Executive Director etc. and related issues and the following decisions have been taken:-

Director Simplicitor

- 2.14.1.11(iv) As regards the question of permitting a member in practice to be a, Promoter/Promoter- Director, Subscriber to the Memorandum and Articles of Association of any Company, it was decided that:

(a) Director of a Company

- (1) The expression "Director Simplicitor" means an ordinary/simple Director who is not a Managing Director or Whole time Director and is required only in the Board Meetings of the company and not paid any remuneration except for attending such meetings.
- (2) A member in practice is permitted generally to be a Director Simplicitor in any Company including a board-managed Company and as such he is not required to obtain any specific permission of the Council in this behalf unless he or any of his partners is interested in such Company as an auditor, irrespective of whether he and/or his relatives hold substantial interest in that Company.

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(b) Promoter/Promoter-Director

There is no bar for a member to be a Promotor/Signatory to the Memorandum and Articles of Association of any Company. There is also no bar for such a Promoter/Signatory to be a Director Simplicitor of that Company irrespective of whether the objects of the Company include areas which fall within the scope of the profession of Chartered Accountants. Therefore members are not required to obtain specific permission of the Council in such cases. It must be clarified that under Section 25 of the Chartered Accountants Act, no Company can practise as a Chartered Accountant.

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2.14.1.12A *Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he :-*

Clause (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.*

- 2.14.1.12(i) The above clause prohibits a member from allowing another member who is not in practice or his partner to sign any balance sheet, Profit and Loss Account, or Financial Statement on his behalf or on behalf of his firm.
- 2.14.1.12(ii) This Clause is to be read in conjunction with Section 26 of the Chartered Accountants Act, 1949 which stipulates that '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.'
- 2.14.1.12(iii) The term 'Financial Statement' for the purposes of this clause would cover an examination of the accounts or of financial statements given under a statutory enactment or otherwise.
- 2.14.1.12(iv) A report, however, may cover a wider range of documents but in the context in which it is used in this clause, it would mean only a report arising out of a professional assignment undertaken by him or his firm and submitted by him or his firm to the client(s) or where so required, to an outsider on behalf of himself or on behalf of the firm. The subject matter of report should be the expression of a professional opinion whether financial or non-financial. The financial statements and the reports referred to in this clause obviously mean the financial statements and reports as ultimately finalised and submitted to the outside authorities.
- 2.14.1.12(v) The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract the provisions of this clause:-

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- a. Issue of audit queries during the course of audit/confirmation of third parties for Audit.
- b. Asking for information or issue of questionnaire.
- c. Letter forwarding draft observations/financial statements.
- d. Initialing and stamping of vouchers and of schedules prepared for the purpose of audit.
- e. Acknowledging and carrying on routine correspondence with clients.
- f. Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.
- g. Issuing acknowledgements for records produced.
- h. Raising of bills and issuing acknowledgements for money receipts.
- i. Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act, 1961.
- j. Any other matter incidental to the office administration and routine work involved in practice of accountancy.

2.14.1.12(vi) It is also clarified that where the authority to sign documents given above is delegated by a Chartered Accountant or by a firm of Chartered Accountants the fact that the documents have not been signed by a Chartered Accountant is not a defence to him or to the firm in an enquiry relating to professional misconduct.

Signing in the name of the Firm

2.14.1.12(vii) However, the Council has decided that where a member, while signing a report or a financial statement or any other document is statutorily required to disclose his name, the member should disclose his name while appending his signature on the report or document. Where there is no such statutory requirement, the member may sign in the name of the firm. It may be noted that the revised SA 700 mandates mentioning of Membership No. and Firm Registration No. Members' attention is also drawn towards UDIN Guidelines of the Institute in 2018.

2.14.2 PART II OF THE FIRST SCHEDULE

Professional Misconduct in Relation to Members of the Institute in Service.

The two clauses reproduced below included in this part of the First Schedule defines different types of conduct of a member in Service

2.14.2.1 *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 —*

Clause (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;*

2.14.2.1 (i) This clause restrains a member of the Institute from sharing any part of their employment's emoluments to any person directly or indirectly.

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2.14.2.2 *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 —*

Clause (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;*

2.14.2.2(i) A member in the foregoing circumstances would be guilty of misconduct regardless of the fact that he was in whole-time or part-time employment or that he was holding Certificate of Practice along with his employment.

2.14.2.2(ii) These are simple rules of ethics; both the circumstances have already been considered in relation to a member in practice under clauses (2) & (3) of part I of the First Schedule.

2.14.3 PART III OF THE FIRST SCHEDULE

Professional Misconduct in Relation to Members of the Institute Generally

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

Clause (1): *not being a fellow of the Institute, acts as a fellow of the Institute.*

- 2.14.3.1(i) The members of the Institute are divided into two classes designated respectively as associates and fellows as per provisions of Section 5 of Chartered Accountants Act, 1949. Upon satisfying the conditions of grant of fellowship mentioned therein, a member of the Institute shall be entitled to use the letters F.C.A after his name to indicate that he is a Fellow of the Institute.
- 2.14.3.1(ii) This Clause restricts a member not being a fellow from acting or representing as a fellow of the institute is a professional misconduct and is liable therefor.

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

Clause (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;*

2.14.3.2(i) The Institute, the Council, or any of its committees may call for information from a member or ask to comply with certain requirements. It is the responsibility of the members to comply with the direction of the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

2.14.3.2(ii) Various standing and non-standing committees have been constituted by the Council under Section 17 of the Chartered Accountants Act, 1949. These Committees may issue directions to the members as per their terms of reference. The failure on the part of the members for not complying with requirements or supplying the information shall be considered as professional misconduct.

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

Clause (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.*

2.14.3.3(i) The foregoing clauses are intended to empower the Council to enforce discipline over the members, and for obtaining information from members or requiring compliance with any Directions/Guidelines issued by the Council.

2.14.4 PART IV OF THE FIRST SCHEDULE

Other misconduct in relation to members of the Institute generally

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

Clause (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;*

2.14.4.1(i) The members who are held guilty by a Court of law for an offence punishable upto six months in person are also liable for misconduct.

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

Clause (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.*

2.14.4.2(i) The Council has been empowered to opine on any action of a member which brings the Institute or profession in disrepute as misconduct.

2.14.4.2(ii) This Clause, read with Section 22 of the Act, now defines 'Other Misconduct', which has been covered under this Part does not limit or abridge in anyway the power conferred or duty cast on the Director (Discipline) under Section 21(1) of the Act to inquire into the conduct of any member of the Institute under any other circumstances.

2.15 THE SECOND SCHEDULE

The profession of accountancy commands respect and confidence of the general public. The ethics of an accountant signify his behaviour towards members of the profession as well as general public. Thus, as a practitioner or an employee, a Chartered Accountant should conduct/restrict his actions in accordance with the provisions contained in the respective parts of this Schedule. If they are found guilty of any of the acts or omissions stated in any of the parts of this Schedule, they shall be deemed to be guilty of professional misconduct.

2.15.1 PART I OF SECOND SCHEDULE

Professional misconduct in relation to Chartered Accountants in Practice:

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

Clause (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;*

2.15.1.1(i) An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. To divulge such information would be a breach of professional confidence which may give rise to the most serious consequences, even to an action by the client for the loss suffered by him through such a breach. But for this confidence that the public has developed in the integrity of accountants, it would not be possible for persons in a similar trade or industry to appoint the same accountant. The accountant's duty not to disclose continues even after the completion of his assignment. In the context of disclosure of information, attention of members is invited to the provisions of Securities and Exchange Board of

India (Insider Trading) Regulations, 1992. However, nothing in this Clause would bar the previous accountant to inform such client affairs to the new accountant, as he may deem fit.

- 2.15.1.1(ii) If disclosure is required as a part of performance of professional duty by a practising member in relation to a client, the fact that such performance is required by the client would itself amount to the client consenting to such disclosure. Thus, a member in practice submitting information to, say, Exchange Control authorities, while performing his professional duties cannot be considered to have made disclosure without the aforesaid consent. But, in all cases, the request or the initiative that the member does prefer the service which would entail such disclosure must come from the client in relation to whose affairs the disclosure would be entailed.
- 2.15.1.1(iii) A member is not permitted to submit client information before the Court as an evidence on his own behest except where such information is required by the Court through specific directions.

Person competent to accord consent

- 2.15.1.1(iv) If disclosure is required in other cases, it would be necessary to ensure that the consent of the client is sought from a person who is competent to accord such consent. Thus, in the case of a sole-proprietary concern, the consent may be sought from the proprietor or his constituted attorney who is legally empowered to give such consent. In the case of a partnership firm, since in turn, every partner has the authority to bind the firm by his acts, the consent may be sought from any partner. In the case of a Company, by virtue of Section 179 of the Companies Act, 2013 the Board of Directors is empowered to do all that the Company in a general meeting may do unless a resolution by the Company in a general meeting is required by the Act or by the Memorandum or Articles of the Company. Hence, the consent may be sought from the Managing Director if the powers of the Board of Directors are delegated to him comprehensively enough to include the power to give such consent, but if the powers of the Board of

Directors are not so delegated, the consent should be obtained by means of resolution of the Board of Directors of the Company.

Working Papers of the Auditor

- 2.15.1.1(v) 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. For this purpose, the term 'auditor' includes 'internal 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.

Sharing of Information

- 2.15.1.1(vi) There is a difference between sharing of working papers and sharing of information. So far as the information is concerned, he can provide the same to the client or to a Regulatory body after obtaining the consent of the client.

Circumstances of disclosure when required by law

- 2.15.1.1(vii) It is not possible to set out all the circumstances under which disclosure of information may be required by law. If under any legal compulsion and if it is not legally permissible to claim privilege under the Evidence Act, 1872 (S.126), the disclosure made by a member of such information may not be considered as misconduct. However, such matters involve niceties of law and expert legal advice may be sought prior to such disclosure.

It may be noted that a Regulator acting under the lawful exercise of its authority prescribed under the enabling law, e.g. under Code of Criminal Procedure, 1973 may seek client information from the Accountant. Sharing of the client information as sought by the Regulator in such circumstances would be permissible and

would not require the client consent.

- 2.15.1.1(viii) The only circumstances in which this duty of confidence may give rise to a difficulty is where the accountant has reason to believe that the client has been guilty of some unlawful act or default. This matter is of special significance in the case where the client is guilty of tax evasion.

Role of Chartered Accountants in relation to unlawful acts by their Clients.

- 2.15.1.1(ix) *(Attention is also drawn to the members to CARO and Audit Standards)*

1. The question of the member's liability when he is not directly involved in tax frauds committed by his client but he discovers such fraud in the course of his professional work, the action recommended to be taken by him is indicated below.
2. The recommendations below are based on the following premises:-
 - (a) No duty is cast on a member, whether by Section 39 of the Code of Criminal Procedure 1973, or by any other enactment, to inform the Income Tax Authorities about taxation frauds by his client of which he comes to know during the course of his professional work.
 - (b) Under Section 126 of the Evidence Act, 1872, a barrister, attorney, pleader or Vakil is barred from disclosing, except with the express consent of his client, any communication made to him in the course of and for the purpose of his employment or to state the contents or conditions of any document with which he has become acquainted with in such course. The proceedings before the Income Tax authorities are judicial proceedings and the assessee is authorised to be represented by a Chartered Accountant. The privilege given and the restrictions imposed by Section 126 apply as

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between the client and the member, as the member is the client's attorney. Nothing in Section 126 shall protect from non-disclosure any fact observed by a barrister, pleader, attorney or Vakil in the course of his employment at such showing that any crime or fraud has been committed since the commencement of his employment.

- (c) Subject to the above, it is not the duty of a member to shield a client from the consequences of his tax frauds, on the contrary it is guiding principle of professional conduct to discourage tax evasion.
- 3. The paragraphs that follow apply to intentional suppressions or misstatement by the client in his tax returns. If there is a genuine mistake or inadvertent omission, it is presumed that the client would not have any objection to make a complete disclosure to the tax authorities.
- 4. If the fraud discovered by the member relates to the accounts or tax matters of the client for past year(s) for which the client was not represented by the member, the client should be advised to make a disclosure. The member may, however, continue to act for the client in respect of current matters, but is under no obligation so to continue. It is assumed that the past fraud does not affect in any way the current tax matters, and the member should be extra careful to ensure that past behaviour is not reflected in current matters.
- 5. If the fraud relates to accounts etc., examined by the member and reported upon, on the basis of which the tax assessment in the past has been made, or is currently to be made, the client should be advised to make a complete disclosure. If the client should refuse, he should be informed that the member would be entitled to dissociate himself from the case, and that, further, he would inform the authorities that the accounts prepared by him and/or reported upon by him are unreliable, on account of certain information since obtained. He should then make such a

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report to the authorities. But the information subsequently obtained should not as such be communicated to the authorities, unless the client consents in writing.

6. Normally, if disclosure is consented to by the client it should be made immediately. But if the suppression is trivial, the disclosure may be made when the current return is submitted. But if there is any possibility that the collection of tax would be prejudiced, on account of the client disposing of his property or removing his person from the jurisdiction of the Income Tax authorities, the postponement of disclosure would be improper.
7. If the suppression etc. relates to accounts or returns currently being prepared, the member should advise the client to make full disclosure in the accounts and/or return, and should the client refuse, he should make full reservation in his report, and should not associate himself with the return.
8. If the employment of the member is dispensed with before the accounts are completed or are reported on, or the return is submitted, no further duty regarding disclosure etc. rests on the member.
9. The suppression may relate to accounts which are not prepared and/or reported upon by the member, e.g., personal income, income from investments other than business investments etc. The client may refuse full disclosure in the tax return, but still wish that the member should continue to prepare and/or report on his business accounts, though this is quite unlikely in practice. If so requested, the member may continue to do so, but is under no obligation so to do.
10. It should be impressed on the client that:
 - (a) while disclosure may entail only monetary penalties, non-disclosure and subsequent discovery thereof may entail imprisonment and fine, in addition to penalties.

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- (b) any intimation by the member to the Income Tax authorities that the member dissociates himself from the case is certain to start investigation by them in the whole matter.
- 11. The Income Tax authorities may summon the member for the purpose of examining him on oath, under Section 131(1)(b) of the Income Tax Act, 1961 The immunity from disclosure afforded by Section 126 of the Evidence Act, 1872 and the extent of such immunity are questions which involve niceties of law and expert legal advice should be sought in the matter. The refusal of the member to disclose may be taken down, and he may be required to certify it on oath.
- 12. Production of books of account and other documents may be called for under Section 131(1)(c) of the Income Tax Act, 1961 Here also the protection offered by Section 126 of the Evidence Act, 1872 is a matter for expert legal advice.

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

Clause (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;*

2.15.1.2(i) The above clause restrains a member from subscribing to the report on a financial statement so long as it has not been examined by him or by a partner or an employee of his firm or by another Chartered Accountant in practice. It has been introduced to ensure that the work entrusted to him has been carried out by the member either directly or under his supervision before he renders his report.

Position in case of Joint Auditors

2.15.1.2(ii) An exception however has been made in respect of an examination carried out by another Chartered Accountant in practice. This enables two or more members to accept a joint assignment or enables a member also to carry out the examination of financial statements by or with the assistance of another Chartered Accountant in practice.

- Where the joint auditors are appointed, they should by mutual discussion divide the audit work among themselves. The division of work is usually in terms of audit of identifiable units or specified areas, or with reference to the items of assets or liabilities, or income or expenditure. Certain areas of work, owing to their importance or owing to the nature of the work involved, would often not be divided and would be covered by all the joint auditors. Such division of audit work should be adequately documented and communicated to the auditee.
- In the course of the audit, where a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or

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application of judgement by, other joint auditors, he should communicate the same to all the other joint auditors in writing prior to the completion of the audit.

- In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him including proper execution of the audit procedures. On the other hand, all the joint auditors are jointly and severally responsible for-
 - (a) the audit work which is not divided among the joint auditors and is carried out by all joint auditors;
 - (b) decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors.
 - (c) matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
 - (d) examining that the financial statements of the entity comply with the requirements of the relevant statute;
 - (e) presentation and disclosure of the financial statements as required by the applicable financial reporting framework;
 - (f) ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.
- Each joint auditor is responsible to determine the nature, timing and extent of audit procedures to be applied in relation to the areas of work allotted to him.
- Obtaining and evaluating the information and explanations from the management is the joint responsibility of the joint auditors unless they agree upon a specific pattern of distribution of this responsibility. In case of distribution of this responsibility, the liability of the joint auditors is limited to the

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area allocated to that joint auditor.

- For detailed consideration of the subject, the members must refer to Standard on Auditing (SA) 299(Revised), “Joint Audit of Financial Statements”

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

Clause (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 he¹ vouches for the accuracy of the forecast;*

Report on Profit Forecast and/or Financial Forecast

2.15.1.3(i) The Council has issued Standard on Assurance Engagements (SAE) 3400, “The Examination of Prospective Financial Information”, in relation to reports on projections/forecasts, issued on or after April 1, 2007. 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 per the opinion of the Council, 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.

2.15.1.3(ii) Further, the attention of the members is drawn to “Guidance Note on Reports in Company Prospectuses (Revised 2019)” issued by the Council in January 2019. This Guidance Note provides guidance on compliance with the provisions of the Companies Act, 2013 and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018 relating to the reports required to be issued by Chartered

¹ Pursuant to Amendment No. 12 of 2022 being notified, the amendments in Clause (3) shall come into effect from such date as may be notified by the Central Government. In the said clause, for the words “belief that he”, the words “belief that he or his firm” shall be substituted.

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Accountants in prospectus issued by the companies for the offerings made in India.

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

Clause (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;*

- 2.15.1.4(i) If the opinions of auditors are to command respect and the confidence of the public, it is essential that it must be free of any interest which is likely to affect their independence. Since financial interest in the business can be a substantial interest and one of the important factors which may disturb independence, the existence of such an interest direct or indirect affects the opinion of the auditors. As per this clause, an auditor should not express his opinion on financial statements of any business or enterprise wherein he has a substantial interest. This is intended to assure the public as regards the faith and confidences that could be reposed on the independent opinion expressed by the auditors.
- 2.15.1.4(ii) For the purpose of this Clause, the expression “Substantial Interest” shall have meaning as is assigned thereto, under Appendix (9) of the Chartered Accountants Regulations, 1988. (see **Appendix ‘F’**).
- 2.15.1.4(iii) The words “financial statements” used in this clause would cover both reports and certificates usually given after an examination of the accounts or the financial statement or any attest function under any statutory enactment or for purposes of income-tax assessments. This would not, however, apply to cases where such statements are prepared by members in employment purely for the information of their respective employers in the normal course of their duties and not meant to be submitted to any outside authority.
- 2.15.1.4(iv) 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 jeopardise their independence.
- 2.15.1.4(v) Member must take care to see that they do not land themselves in situations where there could be conflict of interest and duty. For example, where a Chartered Accountant is appointed the

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Liquidator of a Company, he should not qua a Chartered Accountant himself, audit the Statement of Accounts to be filed under Section 348(1) of the Companies Act, 2013. The audit in such circumstances should be done by a Chartered Accountant other than the one who is the Liquidator of the Company.

2.15.1.4(vi) In this connection, the Council has decided not to permit a Chartered Accountant in employment to certify the financial statements of the concern in which he is employed, or of a concern under the same management as the concern in which he is employed, even though he holds certificate of practice and that such certification can be done by any Chartered Accountant in practice. This restriction would not however apply where the certification is permitted by any law. The Council has also decided that a Chartered Accountant should not by himself or in his firm name:-

- a. accept the Auditorship of a college, if he is working as a part-time lecturer in the college.
- b. accept the Auditorship of a Trust where his partner is either an employee or a trustee of the Trust.

The Council has, in this connection, issued the following guidelines:

Requirements of Clause applicable to all Attest Functions

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

2.15.1.4(viii) Some of the situations which may arise in the applicability of Clause (4) read with the definition of "Substantial Interest" mentioned in the Appendix (9) to the Chartered Accountants Regulations, 1988 (See **Appendix 'F'**), and other statutory prohibitions are discussed below for the guidance of members:-

1. Where the member, his firm or his partner or his relative has

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substantial interest in the business or enterprise (not being a company).

The independence of mind is a fundamental concept of audit and/or expression of opinion on the financial statements in any form and, therefore, must always be maintained. Nothing can substitute for the essential and fundamental requirements of independence. Therefore, the Council's views are clarified in the following circumstances.

- a. *An enterprise/concern of which a member is either an owner or a partner*

The holding of interest in the business or enterprise (not being a company) by a member himself whether as sole-proprietor or partner in a firm, in the opinion of the Council, would affect his independence of mind in the performance of professional duties in conducting the audit and/or expressing an opinion on financial statements of such enterprise. Therefore, a member shall not audit financial statements of such business or enterprise.

- b. *Where the partner or relative of a member has substantial interest*

The holding of substantial interest by the partner or relative of the member in the business or enterprise (not being a company) of which the audit is to be carried out and opinion is to be expressed on the financial statement, may also affect the independence of mind of the member, in the opinion of Council, in the performance of professional duties. Therefore, the member may, for the same reasons as not to compromise his independence, desist from undertaking the audit of financial statements of such business or enterprise.

2. Where the member or his partner or relative is a director or in the employment of an Officer or an Employee of the Company.

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- (a) *Where the member is holding a position in the Company as Director, officer or employee*

Section 141(3)(b) of the Companies Act, 2013 specifically prohibits a member from auditing the accounts of a Company in which he is an officer or employee of the Company, or in the employment of an officer or an employee of the Company (irrespective of the question of substantial interest).

Moreover, in case the member who is Director *Simplicitor* (general permission) in a Company, the Council has prohibited such member from auditing the accounts of a Company, whether or not he holds substantial interest in the Company.

In case the member seeks specific permission of the Council to be Whole Time or Managing Director in a Company, he would, on grant of such permission, not be entitled either to engage in attest functions (which includes audit), or to hold substantial interest in the Company. Although the provisions of the aforesaid section are not specifically applicable in the context of audits performed under other statutes, e.g. Tax Audit, yet the underlying principle of independence of mind is equally applicable in those situations also.

- (b) *Where the member is not holding a position in the Company, but holding any security or interest*

Section 141(3) (d)(i) of Companies Act, 2013 disqualifies a person from being Auditor of a Company, if he holds any security or interest in the Company, or its subsidiary, or holding or associate company or a subsidiary of such holding Company

- (c) *Where the partner of the member is an officer or employee of a company*

Section 141(3)(c) of Companies Act, 2013 disqualifies a member from being the auditor of a Company, where the partner of such member is an officer or employee of the

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Company.

- (d) *Where the partner of the member is holding any security or interest in the Company*

Section 141(3) (d)(i) of Companies Act, 2013 bars a person from being auditor of a Company, if his partner holds any security or interest in the Company, or its subsidiary, or holding or associate company or a subsidiary of such holding Company.

- (e) *Where the relative of the member is a director or is in the employment of the Company as a director or key managerial person*

Section 141 (3) (f) of Companies Act, 2013 bars a person from accepting audit of a Company where the relative of the member is director or is in the employment of the Company as a director or key managerial person.

- (f) *Where the relative of the member is holding any security or interest in the Company*

Section 141(3)(d) (i) of Companies Act, 2013, read with Rule 10 of Companies (Audit and Auditors) Rules, 2014 bars a person from being auditor of a Company, if his relative holds security or interest in the Company, or its subsidiary, or holding or associate company or a subsidiary of such holding Company of face value exceeding Rupees One Lakh.

- 2.15.1.4(ix) It is not permissible for a member to undertake the assignment of certification, wherein the client is relative of the member. The "relative" for this purpose would refer to the definition mentioned in Appendix (9) to the Chartered Accountants Regulations, 1988 (See **Appendix 'F'**)

- 2.15.1.4(x) An accountant is expected to be no less independent in the discharge of his duties as a tax consultant or as a financial adviser than as auditor. In fact, it is necessary that he should bear the same degree of integrity and independence of mind in all spheres of his work. Unless this is done, the accounts of entities audited by Chartered Accountants or statements made by them

during the course of assessment proceedings would not be relied upon as correct by the authorities.

Members not to write Books of Account for auditee clients

- 2.15.1.4(xi) The Council has clarified that the members are not permitted to write the books of account of their auditee clients.

Statutory auditor not to be the Internal Auditor simultaneously

- 2.15.1.4(xii) An Auditor appointed by an entity under the Companies Act or any other statute shall not be the Internal Auditor of the same entity,

Internal auditor not to be the Tax auditor simultaneously

- 2.15.1.4(xiii) An Internal Auditor of an assessee, whether working with the organization or an independently practicing Chartered Accountant irrespective of being an individual Chartered Accountant or a firm of Chartered Accountants cannot be appointed as its Tax Auditor.

Internal Auditor not to be the GST Auditor simultaneously

- 2.15.1.4(xiv) The Internal Auditor of an entity cannot undertake GST Audit of the same entity.

Cooling off period after completion of tenure as Director

- 2.15.1.4(xv) A member shall not accept the assignment of audit of a Company for a period of two years from the date of cessation of his tenure as Director, of the said Company.

Members to satisfy whether appointment is as per the statute

- 2.15.1.4(xvi) A member should satisfy himself before accepting an appointment as an auditor of an entity that his appointment is in accordance with the statute governing the entity. In case the entity is constituted under a trust deed/instrument, the member should satisfy whether his appointment is valid according to the instrument constituting the entity and rules and regulations made thereunder.
- 2.15.1.4(xvii) In case the appointment is to be authorised by the regulatory authorities such as in the case of co-operative societies, trusts etc. then the member must satisfy whether such regulatory authorities have authorised the managing committee of the

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society/trust for appointment of the auditors. In a case where any entity is being managed by a Managing Committee or Board of Trustees or Board of Governors by whatever name called he should ensure that his appointment is duly made by a resolution passed of such Managing Committee or Board of Trustees or Board of Governors. Even in case of partnership or sole proprietary concerns, the member must ensure that a letter of appointment/engagement is given by the firm/sole proprietor before he accepts the appointment/ engagement.

2.15.1.4(xviii) The following extract of Section 288 of Income Tax Act, 1961 mentions the disqualifications for the purpose of Tax Audit:

“.....Explanation.—In this section, "accountant" means a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 (38 of 1949) who holds a valid certificate of practice under sub-section (1) of section 6 of that Act, but does not include except for the purposes of representing the assessee under sub-section (1)—

- (a) in case of an assessee, being a company, the person who is not eligible for appointment as an auditor of the said company in accordance with the provisions of sub-section (3) of section 141 of the Companies Act, 2013 (18 of 2013); or*
- (b) in any other case,—*
 - (i) the assessee himself or in case of the assessee, being a firm or association of persons or Hindu undivided family, any partner of the firm, or member of the association or the family;*
 - (ii) in case of the assessee, being a trust or institution, any person referred to in clauses (a), (b), (c) and (cc) of sub-section (3) of section 13;*
 - (iii) in case of any person other than persons referred to in sub-clauses (i) and (ii), the person who is competent to verify the return under section 139 in accordance with the provisions of section 140;*

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- (iv) *any relative of any of the persons referred to in sub-clauses (i), (ii) and (iii);*
- (v) *an officer or employee of the assessee;*
- (vi) *an individual who is a partner, or who is in the employment, of an officer or employee of the assessee;*
- (vii) *an individual who, or his relative or partner—*
 - (i) *is holding any security of, or interest in, the assessee:*
Provided that the relative may hold security or interest in the assessee of the face value not exceeding one hundred thousand rupees;
 - (ii) *is indebted to the assessee: Provided that the relative may be indebted to the assessee for an amount not exceeding one hundred thousand rupees;*
 - (iii) *has given a guarantee or provided any security in connection with the indebtedness of any third person to the assessee:*
Provided that the relative may give guarantee or provide any security in connection with the indebtedness of any third person to the assessee for an amount not exceeding one hundred thousand rupees;
- (viii) *a person who, whether directly or indirectly, has business relationship with the assessee of such nature as may be prescribed;*
- (ix) *a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction.*

.....*Explanation.—For the purposes of this section, "relative" in relation to an individual, means—*

- (a) *spouse of the individual;*

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- (b) *brother or sister of the individual;*
- (c) *brother or sister of the spouse of the individual;*
- (d) *any lineal ascendant or descendant of the individual;*
- (e) *any lineal ascendant or descendant of the spouse of the individual;*
- (f) *spouse of a person referred to in clause (b), clause (c), clause (d) or clause (e);*
- (g) *any lineal descendant of a brother or sister of either the individual or of the spouse of the individual”*

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

Clause (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;*

2.15.1.5(i) It may be observed that this Clause refers to failure to disclose a material fact, which is known to him, in a financial statement reported on by the auditor. It is obvious, that before a member could be held guilty of misconduct, materiality has to be established.

Materiality as per SA 320

2.15.1.5(ii) “Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
- Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.”

2.15.1.5(iii) It should be borne in mind that there may be cases where an item may not be material from the point of view of the balance sheet, but may have material significance in relation to the profit and

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loss account for that year and vice-versa. It is therefore essential that care should be taken to ensure that the aspect of materiality should be judged in relation to both the balance sheet and the profit and loss account.

- 2.15.1.5(iv) The words financial statements used in this clause would cover both reports and certificates usually given after an examination of the accounts or of financial statement under any statutory enactment, or/for purposes of income-tax assessments. This would not however, apply to cases where such statements are prepared by members in employment purely for the information of their respective employers in the normal course of their duties and not meant to be submitted to any outside authority.

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

Clause (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;*

2.15.1.6(i) This clause refers to failure on the part of a member to point out in his report a material mis-statement appearing in a financial statement and he has knowledge of the same. Here also, it is obvious, that before a member could be held guilty of misconduct, materiality has to be established and the observations made under the preceding Clause (5), in this connection, will equally apply to this Clause.

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

Clause (7): *does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;*

2.15.1.7(i) Though very simply worded, it is a vital clause which unusually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. Diligence means care; caution; attention and care required from a person in a given situation and the expression 'due diligence' means a measure of prudence, activity, or alertness, as is proper to be expected from, and ordinarily exercised by, a reasonable and prudent member in practice under the particular circumstance. In discharging his professional responsibilities it is expected that a Chartered Accountant would exercise a reasonable degree of diligence in his professional assignment. This would imply that a member in practice keeps himself updated of the changes and developments in the professional space that could have an impact on his professional assignments. The member should also act diligently in accordance with applicable technical and professional standards.

2.15.1.7(ii) Diligence encompasses the responsibility to act in accordance with the requirements of an assignment carefully and thoroughly. The expression 'negligence' covers a wide field and extends from the frontiers of fraud to collateral and minor negligence. The meaning and significance of this clause is well contained in the following passage quoted from the judgement of the Karnataka High Court in a disciplinary case of B. Shantaram Rao in Re page 168 Vol-V of Disciplinary cases in 1977.

"It is the duty of an auditor to bring to bear on the work he has to perform that skill, care and caution which a reasonably competent, careful, and cautious auditor would use. What is reasonable skill, care and caution must depend on the particular circumstances of each case. An auditor is not bound to be a detective, or, as was said, to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watch-dog but not a blood-hound. If there is anything calculated to excite suspicion he should probe it to the bottom; but in the

absence of anything of that kind he is only bound to be reasonably cautious and careful.”

What constitutes professional misconduct

2.15.1.7(iii) The professional misconduct has been explained in the following disciplinary cases:-

Professional misconduct on the part of a person practising one of the technical professions cannot fairly or reasonably be found merely on a finding of a bare non-performance of a duty or some default in performing it. The charge is not one of inefficiency but of misconduct. Imputation of certain mental condition is always involved. The test must always be whether in addition to the failure to do the duty, there has also been a failure to act honestly and reasonably.

(S. Ganesan vs. A.K. Joscelyne - Page 39 of Vol. III of the Disciplinary Cases and pages 43-56 of July, 1956 issue of the Institute's Journal - Judgement delivered on 19th April, 1956).

The misconduct implies failure to act honestly and reasonably either according to the ordinary and natural standard or according to the standard of a particular profession.

(Registrar of Companies, Bihar vs. M.N. Basu - Page 323 of Vol. IV of the Disciplinary Cases and pages 523-526 of June, 1963 issue of the Institute's Journal-Judgement delivered on 7th December, 1962).

Professional misconduct is a term of fairly wide import but generally speaking, it implies fairly serious cases of misconduct of gross negligence. Negligence per se would not amount to gross negligence. In the case of minor errors and lapses, which do not constitute professional misconduct and which, therefore, do not require a reference to the Director, Board of Discipline and the Disciplinary Committee. Nevertheless, the matter is to be brought to the attention of its members so that greater care may be taken in the future in avoiding errors and lapses of a similar type.

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

Clause (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;*

2.15.1.8(i) It is expected of a Chartered Accountant to express his opinion on the financial statements after examining their authenticity with reference to information which is necessary, and explanations given to him. A Chartered Accountant must determine the extent of information which should be obtained by him before he expresses an opinion on the financial statements submitted to him for his report thereon. In this regard, attention is drawn to Standard on Auditing (SA) 500, "Audit Evidence" which requires the auditor to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

2.15.1.8(ii) The Chartered Accountant should not express an opinion before obtaining the required data and information. The latter part of the clause enjoins that where due to inadequacy of information or data the report has to be circumscribed to an extent that it would cease to be of any expression of a categorical opinion, the auditor should clearly express his disclaimer in no uncertain terms. For example, if the auditor has not seen any evidence of the existence and/or valuation of the investment which constitute the only asset of a Company, he should not say that:-

"Subject to the verification of the existence and value of the investments the Balance Sheet shows a true and fair view etc."

2.15.1.8(iii) For manner of auditor's reporting in such situations, reference may be made to SA 705(Revised), "Modifications to the Opinion in the Independent Auditor's Report".

SA 700 (Revised), "Forming an Opinion and Reporting on Financial Statements" establishes standards on the form and content of the auditor's report issued as a result of an audit of financial statements. It requires the auditor to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and to

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express clearly that opinion through a written report.

- 2.15.1.8(iv) The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 2.15.1.8(v) The auditor shall express a modified opinion (qualified opinion, adverse opinion or disclaimer of opinion) in accordance with SA 705(Revised) in the following situations:
- If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - If the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,
- 2.15.1.8(vi) SA 705(Revised) deals with the auditor's responsibility to issue an appropriate audit report in circumstances when, in forming an opinion in accordance with SA 700(Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. This SA also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion.

The auditor shall express a qualified opinion when:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.
- 2.15.1.8(vii) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both

material and pervasive to the financial statements.

- 2.15.1.8(viii) The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- 2.15.1.8(ix) SA 706(Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" deals with additional communication in the auditor's report when the auditor considers it necessary to:
- (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
 - (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
- 2.15.1.8(x) In case of point (a), SA 706(Revised) requires the auditor to include an Emphasis of Matter paragraph in the auditor's report. In case of point (b), SA 706(Revised) requires the auditor to include an Other Matter paragraph in the auditor's report.
- 2.15.1.8(xi) For detailed consideration of the subject, including illustrative formats of auditor's report in different circumstances, the members may refer to SA 700(Revised), SA 705(Revised) and SA 706(Revised).

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

Clause (9): *fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances;*

Generally Accepted Audit Procedure (GAAP)

2.15.1.9(i) This clause implies that the audit should be performed in accordance with “generally accepted procedure of audit applicable to the circumstances” and if for any reason the auditor has not been able to perform the audit in accordance with such procedure, his report should draw attention to the material departures from such procedures. What constitutes “generally accepted audit procedure” would depend upon the facts and circumstances of each case, but guidance is available from the various pronouncements of the Institute issued from time to time by way of Engagement and Quality Control Standards, Statements, General Clarifications, Guidance Notes Technical Guides, Practice Manuals, Studies and Other Papers.

Audit of Listed Companies

2.15.1.9(ii) Pursuant to SEBI Notification No. LAD-NRO/GN/2009-10/23/186926 dt. 11th December, 2009, Statutory Audit of Listed Companies under the Companies Act, 2013 shall be done by only those auditors who have subjected themselves to the Peer Review process of the Institute, and hold a valid certificate issued by the Peer Review Board of the ICAI.

FRN and Membership No.

2.15.1.9(iii) The members are required to mention the Membership number and Firm registration number to all reports issued pursuant to any attestation engagements, including certificates, issued by them as proprietor of/ partner in the said firm.

Unique Document Identification Number (UDIN)

2.15.1.9(iv) The members may note that UDIN is mandatory – (i) for all Certificates w.e.f. 1st February, 2019 - (ii) for all GST and Tax

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Audit Reports w.e.f. 1st April, 2019 - (iii) for all other Audit, Assurance and Attest Functions w.e.f. 1st July, 2019.

The UDIN Guidelines issued vide Notification dated 2 August, 2019 are enclosed at **Volume-III**.

- 2.15.1.9(v) As per announcements of the Council regarding status of various documents issued by the Institute, the 'Standards on Auditing' have been issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. 'Standards on Auditing' therefore are mandatory. Accordingly, while discharging their attest function, it will be the duty of the members of the Institute to ensure that the 'Standards' relating to Auditing matters are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with such 'Standards', his report should draw attention to the material departures therefrom.
- 2.15.1.9(vi) The Council of the Institute of Chartered Accountants of India has issued the "Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" in July, 2007 to facilitate understanding of the scope and authority of the pronouncements of the Auditing and Assurance Standard Board (AASB) issued under the authority of the Council of the Institute. The Preface is effective from April 1, 2008.
- 2.15.1.9(vii) As per the Preface, the scope and authority of the various pronouncements of the AASB issued under the authority of the Council of the Institute is as under:

(A) Engagement Standards

The following Standards issued by AASB under the authority of the Council are collectively known as the Engagement Standards:

- (a) Standards on Auditing (SAs), to be applied in the audit of historical financial information.
- (b) Standards on Review Engagements (SREs), to be applied in the review of historical financial information.
- (c) Standards on Assurance Engagements (SAEs), to be applied in assurance engagements, other than audits and

reviews of historical financial information.

- (d) Standards on Related Services (SRSs), to be applied to engagements involving application of agreed-upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

Standards on Quality Control (SQC), issued by the AASB under the authority of the Council, are to be applied for all services covered by the Engagement Standards.

(B) Standards on Auditing (SA)

The Standards on Auditing (SAs) are formulated in the context of an audit of financial statements by an independent auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the SAs, in accordance with the auditor's findings.

However, because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the SAs. In all cases, when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the SAs require that the auditor disclaim an opinion or withdraw from the engagement, where withdrawal

is legally permitted. The auditor is required to comply with each Standard on Auditing (SA) relevant to the audit. An SA is relevant to the audit when the SA is in effect and the circumstances addressed by the SA exist.

(C) General Clarifications

General Clarifications are issued with a view to clarify any issues arising from the Standards. General Clarifications are mandatory in nature.

It is the duty of the professional accountants to ensure that the Standards/ General Clarifications are followed in the engagements undertaken by them. The need for the professional accountants to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective. If because of that reason, a professional accountant has not been able to perform an engagement procedure in accordance with any Standard/ /General Clarification, he is required to document how alternative procedures performed achieve the purpose of the procedure, and, unless otherwise clear, the reasons for the departure. Further, his report should draw attention to such departures. However, a mere disclosure in his report does not absolve a professional accountant from complying with the applicable Standards/ General Clarifications.

(D) Guidance Notes

Guidance Notes, though recommendatory in nature, are issued to assist professional accountants in implementing the Engagement Standards and the Standards on Quality Control issued under the authority of the Council. Guidance Notes are also issued to provide guidance on other generic or industry specific audit issues, not necessarily arising out of a Standard. Professional accountants should be aware of and consider Guidance Notes applicable to the engagement. A professional

accountant who does not consider and apply the guidance included in a relevant Guidance Note should take reasonable and adequate care in performing the alternate procedures adopted by him to deal with the objectives and basic principles set out in the Guidance Note. In such situations, a professional accountant should also document the rationale in performing the alternate procedures.

(E) Technical Guides, Practice Manuals, Studies and Other Papers Published by AASB

Technical Guides are ordinarily aimed at imparting broad knowledge about a particular aspect or of an industry to the professional accountants. Practice Manuals are aimed at providing additional guidance to professional accountants in performing audit and other related assignments. Studies and other papers are aimed at promoting discussion or debate or creating awareness on issues relating to quality control, auditing, assurance and related service, affecting the profession. Such publications do not establish any basic principles or essential procedures to be followed in audit, review, other assurance or related services engagements, and accordingly, have no authority of the Council attached to them.

- 2.15.1.9(viii) An auditor of a Company is appointed by the shareholders to perform certain statutory functions and duties and it is expected of him that he will in fact, perform these functions and duties. The failure to perform a statutory duty in the manner required is not excused merely by giving a qualification or reservation in auditor's report. For example, if an auditor fails to verify the cash balance in circumstances where such verification was necessary, feasible and material, it is not sufficient for him merely to state in his report that he did not verify the cash balance. Consequently, when giving any reservations or qualifications in the auditor's report as required under this clause, a member would be well advised to indicate clearly the reasons why he was unable to perform the audit in accordance with generally accepted procedures and standards.

- 2.15.1.9(ix) It is not possible to exhaustively deal with instances or accepted procedure of audit applicable to special cases. Two instances of an audit requiring a special procedure are given below:-

Certifying figures of circulation of Newspapers etc.

Very often members are required to certify the figures of circulation of newspapers, magazines etc. by their clients on behalf of the Audit Bureau of Circulations Ltd. Members are normally supplied by the ABC with the Rules and Regulations under which the certification of circulation is to be carried out. Members are also asked to give their acceptance in writing that they will observe the rules of procedure envisaged to report upon any lapse of such special requirements, even of an insignificant nature.

Verification on behalf of Banks

Similarly, in the case of verification on behalf of banks, the rules or procedure for conducting such audit are different from the normal rules applicable to audits under the Companies Act. Members are required to be very familiar with the special procedure required in these matters and act accordingly.

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

Clause (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.*

2.15.1.10(i) In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client (other than fees or remuneration or money meant to be expended). If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client within a reasonable time. In this connection the Council has considered some practical difficulties of the members and the following suggestions have been made to remove these difficulties:-

- a. An advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.
- b. Moneys received for expenses to be incurred, for example, payment of prescribed statutory fees, purchase of stamp paper etc., which are intended to be spent within a reasonably short time need not be put in a separate bank account. For this purpose, the expression reasonably short time, would depend upon the circumstances of each case.
- c. Moneys received for expenses to be incurred which are not intended to be spent within a reasonably short time as aforesaid, should be put in a separate bank account immediately.
- d. Moneys received by a Chartered Accountant, in his capacity as trustee, executor, liquidator, etc. must be put in a separate bank account immediately.

2.15.2 PART-II OF SECOND SCHEDULE

Professional Misconduct in relation to Members of the Institute generally.

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

Clause (1): *contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council:*

- 2.15.2.1(i) This clause requires every member of the Institute to act within the framework of the Chartered Accountants Act and the Regulations and guidelines made by the Council thereunder. The Council so far has issued guidelines under this clause, as appearing in Chapter 4. Any violation either of these guidelines or the Act or the Regulations by a member would be covered as a professional misconduct under this part.
- 2.15.2.1(ii) The Council is empowered to issue guidelines in exercise of the power conferred by clause (1) of this Part. The Council has issued guidelines in lieu of earlier issued several notifications published in the Gazette of India regarding acts or omissions which may amount to misconduct in exercise of the power conferred by the earlier Clause (2) of this Part (repealed vide CA Amendment Act, 2006).
- 2.15.2.1(iii) It is an authority for the Council to issue guidelines for extending the scope of misconduct to cover acts or omissions not already dealt with in the various clauses of the two schedules.

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

Clause (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;*

2.15.2.2(i) This is an adaptation of the well-accepted principle of the law of agency. A member in the forthcoming circumstance would be guilty of misconduct regardless of the fact that he was in whole time or part-time employment or that he was carrying on practice of accountancy along with his employment. Since as employee, a member may have access to a confidential information, hence for maintaining the status and dignity of the profession in general, he should treat such information as having been provided to him only to facilitate the performance of his duties as an employee. In order to keep the confidence of the people, Chartered Accountants, should take special care not to divulge such information.

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

Clause (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;*

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

Clause (4): *defalcates or embezzles moneys received in his professional capacity.*

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

¹Clause (5): *acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.*

2.15.2.5(i) A member shall, prior to accepting the appointment of an Auditor, he is required to verify that the appointment is valid and in accordance with the provisions of the Companies Act, 2013. This includes confirming eligibility, ensuring qualification, and verifying the validity of the appointment contained in Section 139 to 141 of Companies Act, 2013. This finds mention under Clause (9) of Part I of the First Schedule to the Act.

As per the newly incorporated Clause (5), the member, after appointment as Auditor, shall perform duties in accordance with the provisions of the Companies Act, 2013.

2.15.2.5(ii) The objective of this Clause is to uphold the sanctity of the audit process and the statutory obligations attached to the role of an auditor as mentioned under the Companies Act, 2013. Members are therefore required to exercise the highest degree of adherence to statutory requirements while discharging their audit responsibilities.

¹ Inserted by the Amendment No. 12 of 2022 and came into force w.e.f. 10th May, 2022.

2.15.3 PART III OF SECOND SCHEDULE

Other Misconduct in relation to members of the Institute generally

- 2.15.3.1 *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.*
- 2.15.3.1(i) If a member of the Institute, whether in practice or not, is held guilty by any Court for any offence which is punishable with imprisonment for more than six months, he shall be held guilty of 'misconduct' under this Clause.

CHAPTER 3

COUNCIL GUIDELINES FOR ADVERTISEMENT, 2008

Guidelines No.1-CA(7)/Council Guidelines/01/2008
(Updated up to February, 2020)

FOR THE MEMBERS IN PRACTICE

*(Issued Pursuant to Clause (7) of Part I of the
First Schedule to the Chartered Accountants Act, 1949.)*

- 3.1** The Members may advertise through a write up setting out their particulars or of their firms and services provided by them subject to the following Guidelines and must be presented in such a manner as to maintain the profession's good reputation, dignity and its ability to serve the public interest.
- 3.1.1** The Member(s)/Firm(s) should ensure that the contents of the Write up are true to the best of their knowledge and belief and are in conformity with these Guidelines and be aware that the Institute of Chartered Accountants of India will neither approve a propose write-up, nor owns any responsibility whatsoever for such contents or claims by the writer Member(s)/ Firm(s).
- 3.1.2** Definitions
- For the purpose of these Guidelines:
- (i) The "Act" means The Chartered Accountants Act, 1949.
 - (ii) "Institute" means the Institute of Chartered Accountants of India.
 - (iii) "write up" means the writing of particulars in contemporary form according to the information given in the Guidelines setting out the services, rendered by the Members or firms and any writing or display of the particulars of the Member(s) in Practice or of firm(s) issued, circulated or published by way of print or electronic mode or otherwise including in newspapers, journals, Directories, magazines and websites, *which include social Networking Websites*¹ (in Push as well as in Pull mode) in accordance with the Guidelines.

¹ As incorporated pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020

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(The terms not defined herein have the same meaning as assigned to them in the Chartered Accountants Act, 1949 and the Rules, Regulations and Guidelines made there under.)

3.1.3 **The write-up shall comply with the following conditions²:-**

- A. It shall be honest and truthful.
- B. There shall be no exaggerated claims for the services offered by the member or the Firm, or the qualifications or experience of the member or any of the partners or any other person associated with the Firm.
- C. It must not make any disparaging references or unsubstantiated comparisons to the work of others.
- D. It should not be of a nature that may bring the profession into disrepute.
- E. It should not contain testimonials or endorsements concerning Member(s) or the fees charged.
- F. It should not contain any information about achievements /awards (except the awards given by the Central or State Governments or Regulatory bodies) or any other position held, or accreditation(s) granted by any organisation.
- G. Monogram of any kind or use of any kind of catch words is not permissible.
- H. It must not be violative of any provisions of Chartered Accountants Act, 1949, Chartered Accountants Regulations, 1988, Code of Ethics, 2020 or any Guideline of the Council

3.1.4 The Institute of Chartered Accountants of India may issue a reasoned directive for removal or withdrawal of the whole write-up or of any part(s) thereof³.

² As amended by Council at its 388th Meeting held on 6th and 7th Feb., 2020.

³ As incorporated pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020.

3.2 Advertisement through write-up

3.2.1 While advertising the services or details of Firms, the write-up may include the following information:

(A) For Members

- (i) CA.....Name
- (ii) Membership No. with Institute
- (iii) Age
- (iv) Date of becoming ACA
- (v) Date of becoming FCA
- (vi) Date from which COP held
- (vii) Recognized qualifications
- (viii) Languages known
- (ix) Telephone/Mobile/Fax No.
- (x) Professional Address
- (xi) Website
- (xii) E-mail
- (xiii) CA Logo
- (xiv) Passport *style*⁴ photograph
- (xv) Details of Employees (Nos. -)
 - (a) Chartered Accountants -
 - (b) Other Professionals –
 - (c) Articles/Audit Assistants
 - (d) Other Employees
- (xvi) Names of the employees and their particulars on the lines allowed for a member as stated above.

4 As amended by Council at its 388th Meeting held on 6th and 7th Feb., 2020.

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(xvii) Services provided

- (a)
- (b)
- (c)

(xviii) Position held as Director or Managing Director in a Management Consultancy Company registered with the Institute⁵.

(xix) Names of the client, and nature of assignment handled, subject to permission of the client. However, for the purpose of services which are exclusively reserved for Chartered Accountants, only client name may be mentioned.

(B) For Firms

- (i) Name of the Firm Chartered Accountants
- (ii) Firm Registration No. with Institute
- (iii) Year of establishment.
- (iv) Professional Address(s) registered with the Institute (both Head Office and Branches)
- (v) Working Hours
- (vi) Tel. No(s)/Mobile No./Fax No(s)
- (vii) E-mail
- (viii) No. of partners
- (ix) Name of the proprietor/partners and their particulars on the lines allowed for a member as stated above including passport *style*⁶ photograph.
- (x) CA Logo
- (xi) Details of Employees (Nos. -)
 - (a) Chartered Accountants -
 - (b) Other professionals –

⁵ As incorporated pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020.

⁶ As amended by Council at its 388th Meeting held on 6th and 7th Feb., 2020.

- (c) Articles/Audit Assistants
- (d) Other employees
- (xii) Names of the employees of the firm and their particulars on the lines allowed for a member as stated above.
- (xiii) Services provided:
 - (a)
 - (b)
 - (c)
- (xiv) Affiliation with a Network registered with the Institute⁷
 The write-up may have the Signature, Name of the Member/
 Name of the Partner signing on behalf of the firm, Place and
 Date.
- (xv) Names of the client, and nature of assignment handled, subject
 to permission of the client. However, for the purpose of services
 which are exclusively reserved for Chartered Accountants, only
 client name may be mentioned.

3.3 Website of the CA Firms⁸/Network Firms/Alliance Firms

The Council has approved the detailed guidelines for posting the particulars on Website by Chartered Accountant(s) in practice, firm(s) of Chartered Accountants in practice and/or Network/Alliance of firms registered with ICAI :-

- 3.3.1 The Chartered Accountants and/or Chartered Accountants' Firms or Network/Alliance of firms registered with ICAI would be free to create their own Website. The following stipulations will be applicable on such websites:-
- 3.3.2 The actual format of the Website is not being prescribed nor any standard format of the Website is being given to provide flexibility to the Members.

⁷ As incorporated pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020.

⁸ As amended and included under Guidelines for Advertisement pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020.

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- 3.3.3 The websites of Chartered Accountants and/or Chartered Accountants' Firms or Network/Alliance of firms registered with ICAI may run on Pull as well Push technology. However, for services which are exclusively reserved for Chartered Accountants, only pull model will be permitted to ensure that any person who wishes to locate the exclusive services of Chartered Accountants or Chartered Accountants' firms would only have access to the information and the information should be provided only on the basis of specific "pull" request.
- 3.3.4 The Chartered Accountants and/or Chartered Accountants' Firms or Network/Alliance of firms registered with ICAI should ensure that none of the information contained in the Website be circulated on their own or through E-mail or by any other mode or technique except on a specific "pull" request.
- 3.3.5 The Chartered Accountants would also not issue any circular or any other advertisement or any other material of any kind whatsoever by virtue of which they solicit people to visit their Website. The Chartered Accountants would, however, be permitted to mention their Website address on their professional stationery and email.
- 3.3.6 The Network/Alliance of firms registered with ICAI should display their Registration Number on the Website. The model adopted for Networking (i.e., Alliance Model, Network Model, or Lead Firm Model) should also be mentioned.
- 3.3.7 The following information may be allowed to be displayed on the Firms/ Members' Network/Alliance of firms registered with ICAI Websites:
- (i) Member/Trade/Firm name/ Network/Alliance of firms registered with ICAI.
 - (ii) Year of establishment.
 - (iii) Member/Firm's Address (both Head Office and Branches)
Tel. No(s)
Fax No(s)
E-mail ID(s)
 - (iv) Nature of services rendered
 - (v) Exclusive services to be displayable only on specific "pull"

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request

(vi) Partners

[Note: Network/Alliance of firms registered with ICAI may mention Firm wise details]

Partners Name	Year of Quali- fication	Other Quali- fication(s)	Tel.. Off.-Direct Res. Mobile E-mail address	Area of Experience
------------------	-------------------------------	--------------------------------	---	-----------------------

(vii) Details of Employees -

Professional	Others	Name	Designation	Area of experience
--------------	--------	------	-------------	-----------------------

(viii) Job vacancies for the Chartered Accountant/firm of Chartered Accountants (including articleship).

(ix) No. of articled assistants.

(x) Names of the client, and nature of assignment handled, subject to permission of the client. However, for the purpose of services which are exclusively reserved for Chartered Accountants, only client name may be mentioned. Fee charged cannot be given.

However, the fees charged may be disclosed on the website only where it is required by a regulator, whether or not constituted under a statute, in India or outside India, provided that such disclosure is only to the extent of requirement of the regulator and is made only till such period that the member works under the purview of such Regulator/ such requirements of the Regulator are in force. Where such disclosure of fees charged is made on the website, the member/ firm shall ensure that it is mentioned on the website [in italics], below such disclosure itself, that "This disclosure is in terms of the requirement of [name of the regulator] having jurisdiction in [name of the country/ area where such regulator has jurisdiction] vide [Rule/ Directive etc.

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under which the disclosure is required by the Regulator].

- 3.3.8 The Network/Alliance of firms registered with ICAI should update any changes in its constitution, including the entry or exit of any Firm from the Alliance/Network. No information about any entity that is not part of the Alliance/Network will be mentioned on the Website.
- 3.3.9 Display of Passport style photographs of persons associated with the Firm/ Network/Alliance of firms registered with ICAI and photo gallery of professional event(s) organized by the firm registered with ICAI or any professional event(s) where lectures are delivered by the partners / proprietor of the Firm is permitted.
- 3.3.10 The members may include blogs, articles, professional information, bulletin boards, professional updation and other matters of larger importance or of professional interest on the website. Educational videos on topics of professional relevance are permissible.
- 3.3.11 The chat rooms can be provided which permit chatting amongst members of the ICAI and between Firms/ Network/Alliance of firms registered with ICAI and its clients. The confidentiality protocol would have to be observed. The Firms can provide document management facility with distinct log in and password facility to the clients to access copies of their documents on the Firm website.
- 3.3.12 The Firm can provide link of its page on Social Networking site. However, the members should not solicit people to visit or like their respective page(s) on such social Networking site.
- 3.3.13 The members/firms can provide on line advice to their clients who specifically request for the advice whether free of charge or on payment.
- 3.3.14 The details in the Website should be so designed that it does not amount to soliciting client or professional work. In case any content or technical feature of Website is against the professional Code of Conduct and Ethics as well as the restrictions contained in the schedules to the Chartered Accountants Act, 1949 or against the guidelines or directions issued by ICAI from time to time, appropriate action will be initiated by the ICAI in terms of its disciplinary mechanism either suo moto or on complaint as provided under the

Chartered Accountants Act, 1949.

- 3.3.15 The Website should ensure adequate secrecy of the matters of the clients handled through Website.
- 3.3.16 No Advertisement in the nature of banner or any other nature will be permitted on the Website.
- 3.3.17 The Website should be befitting the profession of Chartered Accountants and should not contain any information or material which is unbecoming of a Chartered Accountant.
- 3.3.18 The Website may provide a link to the Website of ICAI, its Regional Councils and Branches and also the Website of Govt./Govt. Departments/Regulatory authorities/other Professional Bodies.
- 3.3.19 The Website address should be as near as possible to the individual name/trade name, firm name of the Chartered Accountant in practice or firm of Chartered Accountants in practice or name of Network/Alliance of firms registered with ICAI. But it should not amount to soliciting clients or professional work or advertisement of professional attainments or services. The Ethical Standards Board (ESB) of ICAI will decide in case there is any difficulty.
- 3.3.20 The Website should mention the information which is not at material variance from the information as per the ICAI's records.

3.4 Online Third Party Platforms⁹

A number of non-Chartered Accountants' firms, corporates including banks, finance Companies and newspapers have set up their own Websites providing advisory services on taxation and other areas where Chartered Accountants are rendering professional service. Some of such Websites may request Chartered Accountants or Chartered Accountants' firms to provide consultation and advice through their Websites. No other service, besides consultancy and advice can be rendered through such websites, provided that on the Website, contact address of the Chartered Accountant concerned is not provided nor such Website will contain any material which

⁹ As included under Guidelines for Advertisement pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020.

advertises professional achievements or status of such Chartered Accountant except making a statement that they are Chartered Accountants. The name of Chartered Accountants' firm with suffix "Chartered Accountants" would not be permitted.

3.5 Application based Service provider Aggregators¹⁰

It is not permissible for members to list themselves with online Application based service provider Aggregators. Members are encouraged to use the "CA Connect", listing portal on the platform of the Institute.

3.6 Specialised Directories for limited circulation¹⁰

The name, description and address of member (or firm) may appear in any directory or list of members of a particular body in which the names are listed alphabetically. For a specialised directory or a publication such as a "Who's Who" (including those compiled on purely local basis), a member should use his discretion in supplying information, bearing in mind the nature and purpose of the publications. In addition to his name, description and address and those of his firm, a member may give where appropriate, directorships held and reasonable personal details and may state his outside interests. He should not, however, give the names of any of his clients.

3.7 Exemptions¹¹

- 3.7.1 A special exemption has been made as regards publication of the name and address of a member or that of his firm, with the description

¹⁰ As included under Guidelines for Advertisement pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020.

¹⁰ Ibid

¹¹ As included under Guidelines for Advertisement pursuant to decision of Council at its 388th Meeting held on 6th and 7th Feb., 2020.

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Chartered Accountant(s), in an advertisement appearing in the press in the following circumstances, provided that the advertisement is not displayed more prominently than is usual for such advertisements or the name of the member or that of his firm with the designation Chartered Accountant(s) appears in type not bolder than the substance of the advertisement:-

3.7.1(a) Advertisement for recruiting staff in the member's own office.

3.7.1(b) Advertisement inserted on behalf of clients requiring staff or wishing to acquire or dispose of business or property.

3.7.1(c) Advertisement for the sale of a business or property by a member acting in a professional capacity as trustee, liquidator or receiver.

3.7.2 When advertising for staff, it is desirable that members should avoid the expression such as "a well-known firm", since this would savour of advertisement. Similar considerations apply to advertisements for articled assistants. The advertisements should not contain any promotional element nor should there be any suggestion that the services offered by the Chartered Accountant or his firm are superior to those offered by other accountants.

CHAPTER 5

SELF-REGULATORY MEASURES

Recommended by the Council

- 5.1** As the members are aware, the Council has decided upon certain self-regulatory measures in order to ensure a healthy growth of the profession and an equitable flow of professional work among the members. These measures are reviewed from time to time and are published in the Journal of the Institute for observance by the members. The self-regulatory measures are recommendatory. However, considering the spirit underlying these measures, the Council expects that each and every member will effectively implement them. The Council earnestly believes that implementation of these measures would go a long way in ensuring equitable flow of work among the members and would also further enhance the prestige of the profession in the society.

The more important of these recommendations are as under:

5.2 Branch Audits

The branch audits of a Company should not be conducted by its statutory auditors consisting of ten or more members, but should be conducted by the local firms of auditors consisting of less than ten members. This should not be understood to mean any restriction on the right of the statutory auditors to have access over branch accounts conferred under the Companies Act, 2013. This restriction may not apply in the following cases:

- (i) where the accounting records of the branches are maintained at the head office of the respective Companies; and
- (ii) where significant operations of an undertaking or a Company are carried out at its branch office.

5.3 Joint Audit

In the case of large Companies, the practice of associating a practising firm with less than five members as joint auditors should be encouraged. Where a client desires to appoint such a firm as joint auditor, the senior firm should not object to the same.

5.4 Ratio Between Qualified and Unqualified Staff

In the Council's view, a practising firm of Chartered Accountants engaged in audit work should have at least one member for every five non-qualified members of the staff, excluding articled and audit assistants, typists, peons and other persons not engaged directly in such professional work.

5.5 Disclosure of Interest by Auditors in other Firms

The Council has decided that as a good and healthy practice, auditors should make a disclosure of the payments received by them for other services through the medium of a different firm or firms in which the said auditor may be either a partner or proprietor.

5.6 Recommended Minimum Scale of Fees

The Institute has issued revised Minimum scale of Fees for the professional assignments of the members of ICAI. The recommended scale of Fees is to be charged as per the work performed for various professional assignments. The Fees has been recommended separately for Class-A, B and C cities. The members may refer the same at <https://cmpbenefits.icai.org/wp-content/uploads/2020/02/Details-download.pdf>.

APPENDICES

APPENDIX 'A'

(Please refer to page 5)

**List of Engagement and Quality Control Standards issued by ICAI
(Applicable as on April 1, 2025)**

Quality Control			
S.No.	Standard Number (SQC) (1-99)	Standards on Quality Control (SQC)	Date from which effective
1	1	Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	Effective for all engagements relating to accounting periods beginning on or after April 1, 2009.
Audits and Reviews of Historical Financial Information			
	Standard Number (SA) (100-999)	Standards on Auditing (SAs)	Date from which effective
	100-199	Introductory Matters	
	200-299	General Principles and Responsibilities	
2	200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
3	210	Agreeing the Terms of Audit Engagements	Effective for audits of financial statements for periods beginning on or

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			after April 1, 2010.
4	220	Quality Control for an Audit of Financial Statements	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
5	230	Audit Documentation	Effective for audits of financial statements for periods beginning on or after April 1, 2009.
6	240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	Effective for audits of financial statements for periods beginning on or after April 1, 2009.
7	250	Consideration of Laws and Regulations in an Audit of Financial Statements	Effective for audits of financial statements for periods beginning on or after April 1, 2009.
8	260(Revised)	Communication with Those Charged with Governance	Effective for audits of financial statements for periods beginning on or after April 1, 2017.
9	265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
10	299 (Revised)	Joint Audit of Financial Statements	Effective for audits of financial statements for periods beginning on or after April 1, 2018
	300-499	Risk Assessment and Response to Assessed Risks	
11	300	Planning an Audit of Financial Statements	Effective for audits of financial statements for

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			periods beginning on or after April 1, 2008.
12	315	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	Effective for audits of financial statements for periods beginning on or after April 1, 2008.
13	320	Materiality in Planning and Performing an Audit	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
14	330	The Auditor's Responses to Assessed Risks	Effective for audits of financial statements for periods beginning on or after April 1, 2008.
15	402	Audit Considerations Relating to an Entity Using a Service Organisation	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
16	450	Evaluation of Misstatements Identified during the Audit	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
	500–599	Audit Evidence	
17	500	Audit Evidence	Effective for audits of financial statements for periods beginning on or after April 1, 2009.
18	501	Audit Evidence - Specific Considerations for Selected Items	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
19	505	External Confirmations	Effective for audits of

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			financial statements for periods beginning on or after April 1, 2010.
20	510	Initial Audit Engagements—Opening Balances	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
21	520	Analytical Procedures	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
22	530	Audit Sampling	Effective for audits of financial statements for periods beginning on or after April 1, 2009.
23	540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	Effective for audits of financial statements for periods beginning on or after April 1, 2009.
24	550	Related Parties	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
25	560	Subsequent Events	Effective for audits of financial statements for periods beginning on or after April 1, 2009.
26	570(Revised)	Going Concern	Effective for audits of financial statements for periods beginning on or after April 1, 2017.
27	580	Written Representations	Effective for audits of financial statements for

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			periods beginning on or after April 1, 2009.
	600-699	Using Work of Others	
28	600	Using the Work of Another Auditor	Effective for all audits related to accounting periods beginning on or after April 1, 2002.
29	610(Revised)	Using the Work of Internal Auditors	Effective for audits of financial statements for periods beginning on or after April 1, 2016.
30	620	Using the Work of an Auditor's Expert	Effective for audits of financial statements for periods beginning on or after April 1, 2010.
	700-799	Audit Conclusions and Reporting	
31	700(Revised)	Forming an Opinion and Reporting on Financial Statements	Effective for audits of financial statements for periods beginning on or after April 1, 2018
32	701	Communicating Key Audit Matters in the Independent Auditor's Report	Effective for audits of financial statements for periods beginning on or after April 1, 2018
33	705(Revised)	Modifications to the Opinion in the Independent Auditor's Report	Effective for audits of financial statements for periods beginning on or after April 1, 2018
34	706(Revised)	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Effective for audits of financial statements for periods beginning on or after April 1, 2018
35	710	Comparative Information	Effective for audits of

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		- Corresponding Figures and Comparative Financial Statements	financial statements for periods beginning on or after April 1, 2011.
36	720(Revised)	The Auditor's Responsibilities Relating to Other Information	Effective for audits of financial statements for periods beginning on or after April 1, 2018
	800-899	Specialized Areas	
37	800(Revised)	Special Considerations- Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	Effective for audits of financial statements for periods beginning on or after April 1, 2024.
38	805(Revised)	Special Considerations- Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	Effective for audits of financial statements for periods beginning on or after April 1, 2024.
39	810(Revised)	Engagements to Report on Summary Financial Statements	Effective for engagements for periods beginning on or after April 1, 2024.
	Standard Number (SRE) (2000-2699)	Standards on Review Engagements (SREs)	Date from which effective
40	2400(Revised)	Engagements to Review Historical Financial Statements	Applicable for reviews of financial statements for periods beginning on or after April 1, 2016.
41	2410	Review of Interim Financial Information Performed by the Independent Auditor of	Applicable for reviews of interim financial information for periods beginning on or after

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		the Entity	April 1, 2010.
Assurance Engagements Other Than Audits or Reviews of Historical Financial Information			
	Standard Number (SAE) (3000-3699)	Standards on Assurance Engagements (SAEs)	Date from which effective
	3000-3399	Applicable to all Assurance Engagements	
	3400-3699	Subject Specific Standards	
42	3400	The Examination of Prospective Financial Information	Effective in relation to reports on projections/ forecasts, issued on or after April 1, 2007
43	3402	Assurance Reports on Controls at a Service Organisation	Effective for assurance reports covering periods ending on or after April 1, 2011
44	3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus	Effective for assurance reports dated on or after April 1, 2016
Related Services			
	Standard Number (SRS) (4000-4699)	Standards on Related Services (SRSs)	Date from which effective
45	4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	Applicable to all agreed upon procedures engagements beginning on or after

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			April 1, 2004
46	4410(Revised)	Compilation Engagements	Effective for compilation engagements undertaken after March 31, 2016.

APPENDIX 'B'

(Please refer to page 9)

List of Accounting Standards effective as on April 01, 2025

S.no.	Accounting Standard	Description
1.	AS 1	Disclosure of Accounting Policies
2.	AS 2	Valuation of Inventories
3.	AS 3	Cash Flow Statements
4.	AS 4	Contingencies and Events Occurring After the Balance Sheet Date
5.	AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6.	AS 7	Construction Contracts
7.	AS 9	Revenue Recognition
8.	AS 10	Property, Plant and Equipment
9.	AS 11	The Effects of Changes in Foreign Exchange Rates
10.	AS 12	Accounting for Government Grants
11.	AS 13	Accounting for Investments
12.	AS 14	Accounting for Amalgamations
13.	AS 15	Employee Benefits
14.	AS 16	Borrowing Costs
15.	AS 17	Segment Reporting
16.	AS 18	Related Party Disclosures
17.	AS 19	Leases
18.	AS 20	Earnings Per Share
19.	AS 21	Consolidated Financial Statements
20.	AS 22	Accounting for Taxes on Income
21.	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements

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22.	AS 24	Discontinuing Operations
23.	AS 25	Interim Financial Reporting
24.	AS 26	Intangible Assets
25.	AS 27	Financial Reporting of Interests in Joint Ventures
26.	AS 28	Impairment of Assets
27.	AS 29	Provisions, Contingent Liabilities and Contingent Assets

List of Ind AS issued as on April 01, 2025

1.	Ind AS 101	First-time Adoption of Indian Accounting Standards
2.	Ind AS 102	Share-based Payment
3.	Ind AS 103	Business Combinations
4.	Ind AS 104	Insurance Contracts ¹
5.	Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations
6.	Ind AS 106	Exploration for and Evaluation of Mineral Resources
7.	Ind AS 107	Financial Instruments: Disclosures
8.	Ind AS 108	Operating Segments
9.	Ind AS 109	Financial Instruments
10.	Ind AS	Consolidated Financial Statements

¹ This Ind AS is applicable to an insurer or insurance company to provide its financial statement as per Ind AS 104 instead of Ind AS 117 for the purposes of consolidated financial statements by its parent or investor or venturer.

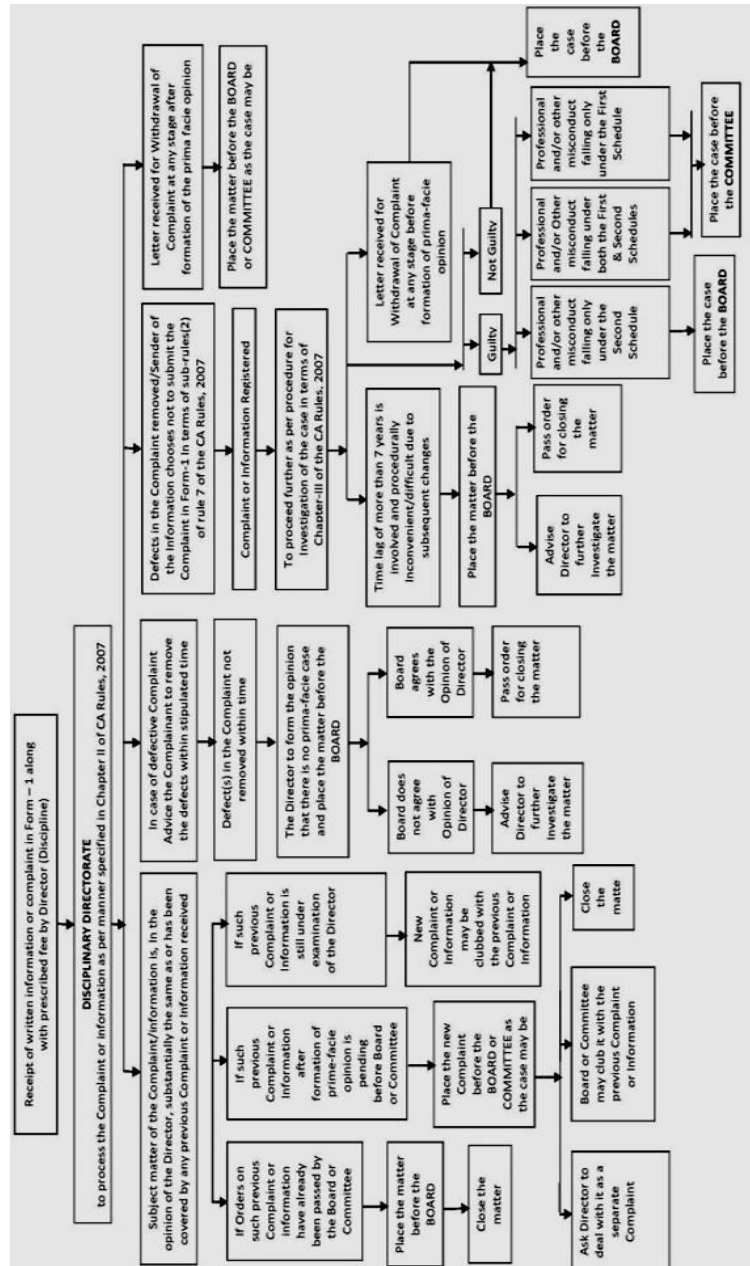
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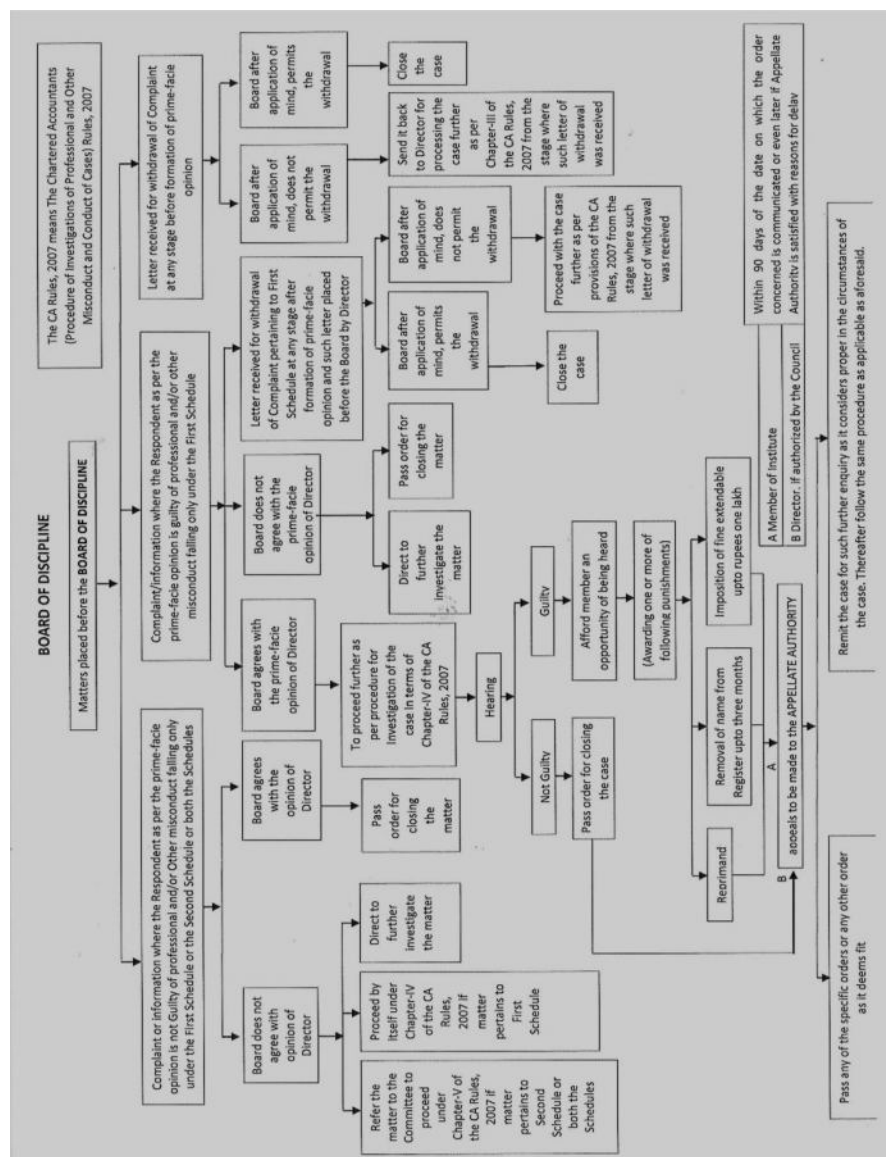
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11.	Ind AS 111	Joint Arrangements
12.	Ind AS 112	Disclosure of Interests in Other Entities
13.	Ind AS 113	Fair Value Measurement
14.	Ind AS 114	Regulatory Deferral Accounts
15.	Ind AS 115	Revenue from Contracts with Customers
16.	Ind AS 116	Leases
17.	Ind AS 117	Insurance Contracts
18.	Ind AS 1	Presentation of Financial Statements
19.	Ind AS 2	Inventories
20.	Ind AS 7	Statement of Cash Flows
21.	Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
22.	Ind AS 10	Events after the Reporting Period
23.	Ind AS 12	Income Taxes
24.	Ind AS 16	Property, Plant and Equipment
25.	Ind AS 19	Employee Benefits
26.	Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
27.	Ind AS 21	The Effects of Changes in Foreign Exchange Rates
28.	Ind AS 23	Borrowing Costs
29.	Ind AS 24	Related Party Disclosures
30.	Ind AS 27	Separate Financial Statements

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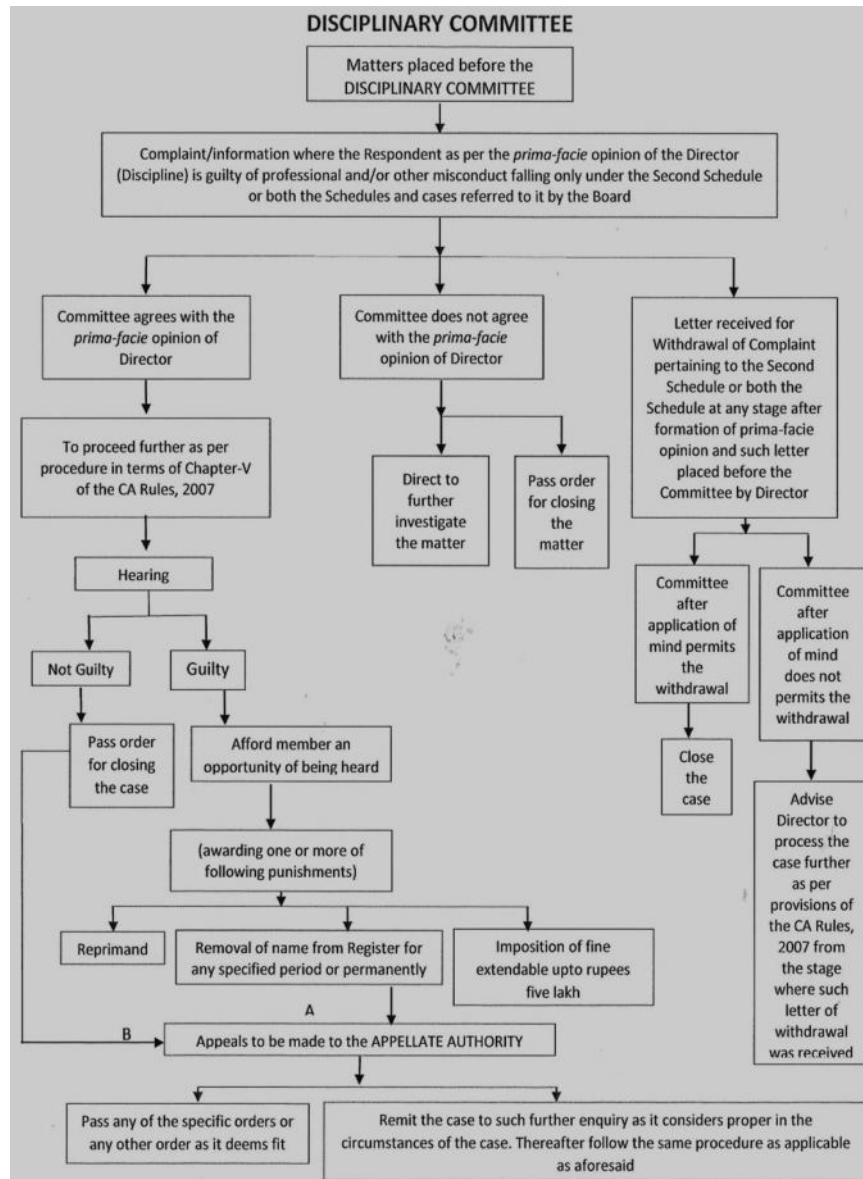
31.	Ind AS 28	Investments in Associates and Joint Ventures
32.	Ind AS 29	Financial Reporting in Hyperinflationary Economies
33.	Ind AS 32	Financial Instruments: Presentation
34.	Ind AS 33	Earnings per Share
35.	Ind AS 34	Interim Financial Reporting
36.	Ind AS 36	Impairment of Assets
37.	Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
38.	Ind AS 38	Intangible Assets
39.	Ind AS 40	Investment Property
40.	Ind AS 41	Agriculture

APPENDIX 'C'
(Please refer to page 35)





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Appendix 'D'

(Please refer to page 55)

1. The Council had recognised membership of the following bodies for the purpose of permitting partnerships by Indian Nationals abroad as are referred to in that clause

The Institute of Chartered Accountants of India;

The Institute of Chartered Accountants of Ceylon;

The Institute of Chartered Accountants in England and Wales;

The Institute of Chartered Accountants of Scotland;

The Institute of Chartered Accountants in Ireland.

2. The Council had passed the following resolution under Section 4(1)(v) of the Chartered Accountants Act, 1949:

“Resolved that the examinations and training in the United Kingdom of the following four Institutes (formerly six) mentioned in Rule 7 of the Auditor’s Certificates Rules, 1932, be recognised by the Council under Section 4(1)(v) of the Act as being equivalent to the examination and training prescribed for the members of this Institute:

- (a) The Institute of Chartered Accountants in England and Wales;
- (b) The Institute of Chartered Accountants of Scotland;
- (c) The Institute of Chartered Accountants in Ireland;
- (d) The Society of Incorporated Accountants and Auditors, London.

Provided that under the proviso to Section 4(1)(v), the following further conditions be prescribed in the case of persons not permanently residing in India:

- (i) That such persons be required to reside in India to practise the profession of Accountancy or to serve as an assistant in a Chartered Accountant’s office in India; and
- (ii) That such persons be not eligible for membership of the Council or the Regional Councils or to the right of voting in elections under the Chartered Accountants Act, 1949; and

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- (iii) That the membership of the Institute will cease if and when the persons concerned ceases to reside or practise in India; and
 - (iv) That the Board of Trade in the United Kingdom accords the right to the members of this Institute to practise the profession of Accountancy in the United Kingdom in respect of the audit of public Companies as defined in the (U.K.) Companies Act, 1948."
- 3. However, the Council of the Institute at its meeting held in December, 1995 decided to withdraw the above resolution w.e.f. December 8, 1995. In view of the above, persons qualified from any of the aforementioned four Institutes in the United Kingdom are not entitled to have their names entered in the Register of Members maintained by the Institute effective from December 8, 1995..
- 4. The Council of the Institute at its meeting held in January 1998 had also decided that effective from December 8, 1997, no person who has undergone training and has passed the examination conducted by any of the following five institutions, organisations, etc. is entitled to have his name entered in the Register of Members maintained by the Institute of Chartered Accountants of India:
 - (i) The Institute of Chartered Accountants of Ceylon;
 - (ii) The Public Accountants and Auditor's Board of South Africa;
 - (iii) The Institute of Chartered Accountants of Pakistan;
 - (iv) The Registered Accountants of Burma; and
 - (v) The Institute of Chartered Accountants in Australia

APPENDIX 'E'

(Please refer to page 94)

Ethical Standards Board (ESB)**A. Purpose:**

“The Institute of Chartered Accountants of India (ICAI) is a statutory body established under The Chartered Accountants Act, 1949 for the regulation and development of the profession of Chartered Accountants in India. The Council of ICAI is empowered to discharge the provisions of the Act, and regulate and maintain the standards of the profession. In pursuance of this, ICAI has established the Ethical Standards Board to function as standard setting body. The Ethical Standards Board develops and issues ethical standards and other pronouncements for chartered accountants. It works towards evolving a dynamic and contemporary Code of Ethics and ethical behaviour for members while retaining the long cherished ideals of ‘excellence, independence, integrity’ as also to protect the dignity and interests of the members”.

B. Objective

The objective of Ethical Standards Board is to set up ethical standards for chartered accountants, converge with the International best practices on ethics, subject to local laws, thereby enhancing the quality and consistency of services provided by chartered accountants and strengthening the public confidence in the profession.

C. Terms of Reference: (Revised by the Council at its 262nd Meeting dated 6-8 Sept, 2006 and 388th Meeting dated on 6th and 7th February, 2020)

- To examine various issues concerning Code of Ethics governing the members of the Institute.
- To establish standards for Chartered Accountants for regulation and maintenance of status and standards of professional qualification of members of the Institute
- To examine and advise on any ethical matters referred to the committee.
- To review periodically and publish the revised Code of Ethics and their publications relating to ethics.

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- To promote public awareness and confidence in the integrity, objectivity, competence and professionalism of members and to co-ordinate with other Committees.
- To examine and deal with the complaints of members against their unjustified removal as auditors of any entity as per procedure evolved and to take necessary steps to protect the interest of the members.

D. Procedure to be followed for dealing with the cases of unjustified removal of Auditors

- (i) Where an auditor resigns from his appointment as an auditor of a Company or does not offer himself for reappointment as auditor of such Company, he shall send a communication, in writing, to the Board of Directors of the Company giving reasons therefor, if he considers that there are professional reasons connected with his resignation or not offering himself for re-appointment which, in his opinion, should be brought to the notice of the Board of Directors, and shall send a copy of such communication to the Institute. It shall be obligatory on the incoming auditor, before accepting appointment to obtain a copy of such communication from the Board of Directors and consider the same before accepting the appointment.
- (ii) Where an auditor, willing for reappointment has not been re-appointed, he shall file with the Institute a copy of the statement which he may have sent to the management of the Company for circulation among the shareholders. It shall be obligatory on the incoming auditor before accepting the appointment, to obtain a copy of such a communication from the Company and consider it, before accepting the appointment.
- (iii) The Ethical Standards Board, on a review of the communications referred to in paras (i) and (ii) may call for such further information as it may require from the incoming auditor, the outgoing auditor and the Company and make a report to the Council in cases where it considers necessary.
- (iv) In the case of removal of auditors by the Government, the Board will

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decide the procedure to be followed on consideration of the facts and circumstances of each case.

The Council at its 229th Meeting held in November 2002, while discussing the existing procedures for dealing with the cases of unjustified removal of auditors, the Council extended the power and scope of functioning of the Board. As per the additional power, the Board has been authorized to consider the cases of unjustified removal/non-reappointment of inconvenient auditor due to his alleged qualificatory remarks/queries. Now, in addition to the existing power, the Board has also been empowered to adopt the procedure narrated hereinunder:-

- (i) On receipt of a complaint from an auditor regarding his unjustified removal or non re-appointment due to alleged qualifications/queries, the Board may ask for the Statement of Reasons from the Complainant which as per complaint lead to his non re-appointment/removal.
- (ii) The Statement of reasons will be sent to the Incoming Auditor and Auditee for their Comments/ Observations. The Complainant and the Incoming Auditor will submit their Statement of Reasons, Observations/Comments thereof and other Submissions duly verified and in case of any wrong Submission, the members shall be liable for misconduct.
- (iii) The Incoming Auditor will be advised to consider the Statement of Reasons submitted by the Complainant while conducting the audit. The Incoming Auditor will be asked to submit a copy of his Audit Report for consideration of the Board. The Board, thereafter, shall examine the Statement of Reasons sent by the Complainant, the Observations/ Comments of Incoming Auditor and Auditee and the Audit Report of the Incoming Auditor to ensure that the issues raised by the Complainant have been adequately addressed to by the Incoming Auditor.
- (iv) It is clarified that this procedure is without prejudice to right of any person and legality of his appointment.
- (v) In case of any negligence by the Incoming Auditor the matter will be referred to the Disciplinary Directorate of the Institute to

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treat the same as 'Information'.

- (vi) It may be mentioned that so far as payment of undisputed fee of the Outgoing Auditor is concerned, the present position shall be maintained.
- (vii) The Board shall have the right to issue interim order, in appropriate cases.

In this regard, an announcement was published in the December 2002 issue of the Institute's Journal 'The Chartered Accountant'.

A member of the Institute in practice shall be deemed to be guilty of professional misconduct, if he does not follow the direction given by the Council or an appropriate Committee or on behalf of any of them, to the incoming auditors not to accept the appointment as auditors, in the case of unjustified removal of the earlier auditors. Attention of the members is invited to the Council guidelines in chapter 3 of the book, and published at page 686 of October 2008 issue of the Institute's Journal, 'The Chartered Accountant'.

A case of cancellation of bank audit was brought to the notice of Ethical Standards Board (ESB) and the Council, in which a firm of Chartered Accountant was appointed as statutory branch auditor of two branches for year ended on 31st March by their Head office vide letter dated 16th March of that year. As stipulated in the appointment letter, the firm sent its acceptance on 31st March to Head office, Under Postal Certificate. The firm started the audit of first branch and completed the same on 10th April. On contacting the second branch on 11th April, the representatives of the firm were not permitted to commence the Audit by the branch manager and a written intimation was given to them to the effect that their appointment was cancelled by Banks Divisional office due to non-receipt of acceptance letter. The Board after considering the facts and circumstances of the case, the comments of the bank and the firm's observations thereon, decided that the appointment should not have been cancelled by the bank. The concerned bank was informed accordingly.

The form of the complaint and the list of the enclosures to be submitted along with the Complaint/Statement of Reasons is given as

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under, and may be sent at the following address :-

Ethical Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Noida Sector 62– 201309

FORM OF COMPLAINT/STATEMENT OF REASONS*

Before the Ethical Standards Board (ESB)

1. Name of the Complainant :
Complainant's Membership No. -
Address -
Phone No. -
Fax -
E-mail address -
Website -
2. Name of the Incoming Auditor
Membership No. -
Address -
Phone No. -
Fax -
E-mail address -
Website -
3. Name & address of the Entity
Address -
Phone No. -
Fax -

To be filed along with a D.D/NEFT of Rs. 2,360/- (including 18% GST on Rs. 2,000/-) in favour of the Secretary, ICAI

The complaint may be filed vide email at esb@icai.in, wherein scanned copy of NEFT payment proof be also enclosed. In case the complaint is made vide hard copy, triplicate copies of complaint and enclosures be sent., along with the Demand Draft.

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E-mail address -

Website -

4. Particulars of complaint/Statement of Reasons leading to removal/non-reappointment. (Please attach separate sheet for details)
5. Particulars of evidence, oral and documentary, if any, to substantiate the complaint. (Please see the list at Annexure for suggested documents to be attached)
6. Relief sought from the Committee including the interim order.
7. Reasons/justifications for Interim Order.
8. Any legal prosecutions initiated and their status including all the relevant documents.

Signature [Partner/Proprietor/Member]

M. No.

VERIFICATION

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

Verified today, theday of 20 at

Signature [Partner/Proprietor/Member]

M. No.

Enclosures to be submitted along with the Complaint/ Statement of Reasons:

Certified true copies of the following documents:

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- (i) Engagement Letter of the Complainant and Resolution for engagement of the Complainant;
- (ii) Documents/evidence indicating removal/non-reappointment of the Complainant;
- (iii) Relevant correspondence exchanged between the Complainant and Incoming Auditor;
- (iv) Relevant correspondence exchanged between the Complainant and entity;
- (v) Copy of Certificate/Audit Report and other Certificates/Draft Audit Report/ Qualifications/Final accounts which lead to his removal, if any;
- (vi) Extract of the Relevant Rules/Regulations for engagement of Auditor;
- (vii) Any other relevant papers/documents on the issues involved.

APPENDIX 'F'

(Please refer to pages 98,122, 123 & 126)

[APPENDIX (9) - C.A. REGULATIONS, 1988]

In pursuance of Regulation 190A of the Chartered Accountants Regulations, 1988 and in supersession of the earlier resolutions on the subject, it was resolved that:

Members of the Institute in practice is permitted to engage in the following categories of business or occupations for which no permission from the Council would be necessary in individual cases:-

1. Employment under Chartered Accountants in practice or firms of such Chartered Accountants.
2. Private tutorship.
3. Authorship of books and articles.
4. Holding of Life Insurance Agency Licence for the limited purpose of getting renewal commission.
5. Attending classes and appearing for any examination.
6. Holding of public elective offices such as M.P., M.L.A. & M.L.C.
7. Honorary office-bearership of charitable, educational or other non-commercial organisations.
8. Acting as Notary Public, Justice of the Peace, Special Executive Magistrate and the like.
9. Part-time tutorship under the Coaching Organisation of the Institute.
10. Valuation of papers, acting as paper-setter, head-examiner or a moderator for any examination.
11. Editorship of professional journals.
12. Acting as Surveyor and Loss Assessor under the Insurance Act, 1938.
13. Acting as Recovery consultant in the Banking Sector.
14. Owning agricultural land and carrying out agricultural activity.

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15. Office of a Managing Director, whole time Director, Executive Director or Manager of a body corporate within the meaning of the Companies Act, 2013 registered with the Institute.
16. Transactions in securities, provided in case of commodity derivatives, only such transactions which are settled on cash basis.
17. Publishing Research Report on own behest.
18. Full-time or part-time employment in business concerns provided that the member and/or his relatives do not hold substantial interest in such concerns.
19. Full-time or part-time employment in non-business concerns.
20. Office of a Managing Director or a whole time Director of a body corporate within the meaning of the Companies Act, 2013, provided that the member and/or any of his relatives do not hold substantial interest in such concern.
- ¹21. Insolvency professional within the meaning of Insolvency and Bankruptcy Code, 2016 holding office of a Managing Director or a whole time Director in a Insolvency Professional Entity (being a body corporate within the meaning of the Companies Act, 2013) recognised by Insolvency and Bankruptcy Board of India.
- ²22. Registered Valuer within the meaning of Companies Act, 2013 read with the Companies (Registered Valuers And Valuation) Rules, 2017 holding office of a Managing Director or a whole time Director in a Registered Valuer Entity (being a body corporate within the meaning of the Companies Act, 2013) recognised by Insolvency and Bankruptcy Board of India.
23. Interest in family business concern or concern in which interest has been acquired as a result of relationship and in the management of which no active part is taken.
24. Interest in an educational institution.

¹ As incorporated pursuant to decision of Council taken at its 417th Meeting held on 18th Jan.2023.

² Ibid

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25. Part-time or full-time lecturership for courses other than those relating to the Institute's examination conducted under the auspices of the Institute or the Regional Councils or their branches.
26. Part-time or full-time tutorship under any educational institution other than the Coaching Organisation of the Institute.
27. Editorship of journals other than professional journals.
28. Any other business or occupation for which the Executive Committee considers that permission may be granted.

Further resolved that any member engaged in above business or occupation, shall be entitled to perform attest function, except in case of any of the following area(s) where the member shall not be entitled to perform attest function:

1. Employment under Chartered Accountants in practice or firms of such Chartered Accountants.
2. Full-time or part-time employment in business concerns provided that the member and/or his relatives do not hold substantial interest in such concerns.
3. Full-time or part-time employment in non-business concerns.
4. Office of a Managing Director or a whole time Director of a body corporate within the meaning of the Companies Act, 2013, provided that the member and/or any of his relatives do not hold substantial interest in such concern.
5. Interest in family business concern or concern in which interest has been acquired as a result of relationship and in the management of which no active part is taken.
6. Interest in an educational institution.
7. Editorship of journals other than professional journals.

Further resolved that the member shall be required to give intimation to the Institute as per the procedure prescribed in this regard for activities mentioned at s. no. 18 to 27.

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Further resolved that In case of Engagement as Lecturer in an University, affiliated college, educational institution, coaching organisation, private tutorship, provided the direct teaching hours devoted to such activities taken together do not exceed 35 hours a week for entitlement of attest function.

In case of s.no. 28, the entitlement to attest function of the member will be decided by Executive Committee on case to case basis.

It was also decided that for the purpose of the above resolution:-

- (I) the expression “relative”, in relation to a member means the spouse, financial dependent parents, children and siblings; and
- (II) a member shall be deemed to have a “substantial interest” in a concern -
 - (i) in a case where the concern is a Company, if its shares (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) carrying not less than twenty per cent of voting power at any time, during the relevant years are owned beneficially by such member or by any one or more of the following persons or partly by such member and partly by one or more of the following persons:
 - (a) One or more relatives of the member;
 - (b) Any concerns in which any of the persons referred to above has a substantial interest;
 - (ii) in the case of any other concern, if such member is entitled or the other persons referred to above or such member and one or more of the other persons referred to above are entitled in the aggregate, at any time during the relevant years to not less than twenty percent of the profits of such concern.

Explanation:

- (a) The relevant years in the context of Clause (4) of Part I of the First Schedule to the Chartered Accountants Act, 1949 read with Appendix (17) mean the year/period to which the report/certificate relates and the year/period during which the said report/certificate is signed.
- (b) The relevant years in the context of Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949 read

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with Appendix (10) mean the year/period in which not less than 20% of voting power/ 20% share of profits were owned beneficially.

Attention of the members is also invited to para 3 of the above Resolution relating to the holding of office of a Managing Director or a whole time Director in a Company. In such cases, a member can accept the office of a managing director or a whole-time Director only after obtaining the specific and prior approval of the Council. Attention of the members is also invited to the provisions of Section 2(54) of the Companies Act, 2013 under which even where a person is not designated as a managing director, he can be deemed to be a managing director if he is entrusted with the whole or substantially the whole of the management of the affairs of the Company.

It may be pointed out that a member cannot accept and hold the office of a managing director or a whole-time director in a Company. If the member/and/or his partners is interested in such a Company as an auditor.

Any member holding certificate of practice and also engaging himself in any other business and/or occupation will be deemed to be in part-time practice.

A member who is not entitled to perform attest function shall not be entitled to train articled assistants.

The decision (of the Council) taken at its 223rd meeting held in February, 2002 prescribing the criteria for individual cases of articleship shall continue to be in operation, mutatis mutandis.

The Council in this connection clarified that the Attest function for the purpose of this Resolution would cover services pertaining to audit, review, certification, agreed upon procedures, and compilation, as defined in the Framework of Statements on Standard Auditing Practices and Guidance Notes on Related Services published in the July, 2001 issue of the Institute's Journal."

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