

# CODE OF ETHICS



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## 2009 Edition Vs Revised Edition

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Code of Ethics, 2009 had parts - "A" & "B". Was valid till 30.06.2020.	"Part-A" was based on IESBA Code "Part-B" was based on domestic provisions governing members.	Code of Ethics, 2019 or Volume - I - (revised counterpart of Part-A) - based on IESBA Code of Ethics, 2018 - Effective from 01.07.2020.
Code of Ethics Volume - II - (revised counterpart of Part-B) - Effective from 01.07.2020.	Updated relevant Disciplinary Case laws issued as Code of Ethics Volume - III	Frequently asked Question on Ethical issues



# Deferred Provisions

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1. **Non-Compliance of Laws and Regulations (NOCLAR)** [Sections 260 and 360]
2. **Fees - Relative Size** [Paragraphs 410.3 to R410.6]
3. **Taxation Services to Audit Clients** [Sub Section 604]

After Two rounds of deferment of these provisions due to Covid-19 etc., these were finally made applicable from 1<sup>st</sup> October, 2022.



# Structure of Code of Ethics, 2019 (Volume-I)

## **Part 1**

Complying with the Code, Fundamental Principles and Conceptual Framework  
Applicable to all Professional Accountants

## **Part 2**

Professional Accountants in Business

## **Part 3**

Professional Accountants in Public Practice

## **Parts 4A**

Independence for Audit & Review  
Engagements

## **Parts 4B**

Independence for Other Assurance  
Engagements

## **Glossary**

## PROFESSIONAL ACCOUNTANT

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Defined in the Code of Ethics as *“An individual who is a member of the Institute of Chartered Accountants of India.”*

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IESBA Code of Ethics uses the term “professional accountants in business” implying members who are employees. Modified to “professional accountant in service” in our Code in line with usage in Chartered Accountants Act, 1949

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## Public Interest Entity

- 2019 edition contains a new term “**Public Interest Entity**” (PIE) with **Enhanced independence requirements**
- Public Interest Entity is defined as :-

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(i) **A listed entity; or**

(ii) An entity:

- Defined by regulation or legislation as a public interest entity; or
- For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.
  - ❖ Banks and Insurance Companies are to be considered as Public Interest Entities.
- Other entities might also be considered by the Firms to be public interest entities, (Paragraph 400.8)
  - ❖ because of 1) Wide range and large number of shareholders. 2) The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, pension funds. 3) Size. 4) Number of employees.

# Identifying Threats - Categories

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Threats to compliance with the fundamental principles fall into one or more of the following categories

Self-Interest Threat

Self-Review Threat

Advocacy Threat

Familiarity Threat

Intimidation Threat

# Identifying Threats - Facts and Circumstances

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## Self Interest Threat

**the threat that a financial or other interest will inappropriately influence a professional Accountant's judgment or behaviour**

E.g., access to corporate assets for personal use or being offered a gift or special treatment from a supplier of the employing organization



# Identifying Threats - Facts and Circumstances

## Self Review Threat

the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made; or an activity performed by the accountant, or by another individual within the accountant's firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity

Action- Maintaining a Checklist for mitigating Self Review Threats

# Identifying Threats - Facts and Circumstances

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## **Advocacy Threat**

**the threat that a professional accountant will promote a client's or employing organization's position to the point that the accountant's objectivity is compromised**

## **Familiarity Threat**

**the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work**

# Identifying Threats - Facts and Circumstances

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## Intimidation Threat

the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant

individual attempting to influence the decision making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle

For now, limited application of NOCLAR has been prescribed in Code of Ethics as against comprehensive application of NOCLAR to all assignments/employees in the IESBA Code.

Applicable only to entities the shares of which are listed on recognized stock exchange(s) in India and have a net worth of 250 Crores or more.

Applicable to only audit assignments.

In case of PAs in service, applicable only to Senior Professional Accountants of listed entities

## NOCLAR – Applicability

- a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements;
- b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

Examples of laws and regulations required to be addressed are:- Fraud, Corruption and Bribery; Money Laundering, Terrorist financing and proceeds of Crime; Securities markets and trading; Environmental Protection; Public Health & Safety; Data Protection; Tax and Pension Liabilities and Payments; Banking and Other Financial Services and Products; etc.

## NOCLAR – Laws & Regulations



## ❖ *Obtaining an Understanding of the Matter*

## ❖ *Addressing the Matter*

- Rectify, Deter the Occurrence, Disclose to an appropriate authority, Comply with applicable Auditing Standards

## ❖ *Determining Whether Further Action Is Needed* (considering management response)

- Disclosing to an appropriate authority, Withdrawing from the engagement/Resigning from the organisation (withdrawal/resignation no substitute to other action)

## ❖ *Documentation*



- In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the professional accountant is encouraged to have the following matters documented:
  - a) The matter
  - b) The results of discussions with his superior, management, those charged with governance and other parties
  - c) How his superior & management/TCWG has responded to the matter
  - d) The courses of action he has considered, the judgments made and the decisions taken.
  - e) How has he satisfied himself that he has fulfilled the responsibility as to whether “any further action is required or not”



Following matters are not in scope of NOCLAR:-

Matters clearly inconsequential

Personal misconduct unrelated to the business activities of the client or employer

Non-compliance other than by the client or employer, or those charged with governance, management or other individuals working for or under the direction of the client or employer

**PA required to address NOCLAR *only when, and if*, he encounters the same *in the course of providing a professional service***

Appropriate authority for the purpose of disclosure will depend on the nature of the matter. For example, the appropriate authority would be SEBI in the case of fraudulent financial reporting





Whether Statutory Auditors are concerned with non following of NOCLAR?



## The Statutory Auditors are concerned because

1. The Code of Ethics requires Auditors to comply with the same
2. It indicates Weak Internal Check System in the Company
3. It indicates presence of risk factors which Auditors need to evaluate under SA 315 (Identifying and Assessing the Risk of Material Misstatement) read with SA 265 (Communicating Deficiencies in Internal Control to those charges with Governance & Management)
4. It questions the sincerity (Governance Environment) and hence the corresponding Corporate Governance report and Directors Responsibility Statement, which Auditors need to factor in under SA 720 (Auditor's Responsibilities relating to Other Information)

## INDEPENDENT AUDITOR'S REPORT

### *Basis for Opinion*

- We conducted our audit in accordance with the Standards on Auditing ("SA's) specified under section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the standalone Ind AS Financial Statements section of our report. ***We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ("ICAI") together with the ethical requirements that are relevant to our audit*** of the Standalone Ind AS Financial Statements under the provisions of the Companies Act, 2013 and the Rules made thereunder, ***and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.*** We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone Ind AS Financial statements.

Interplay of  
Code of Ethics &  
Independent  
Auditors Report

# Interplay of Code of Ethics & Independent Auditors Report

## Independence Declaration

Statutory Audit for financial year 22-23

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### I do hereby declare that I,

- Am not an officer or employee of the Company;
- Am not a person who is a partner, or who is in the employment, of an officer or employee of the Company;
- Am not indebted to the Company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of INR 5,00,000;
- Haven't given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of INR 1,00,000;
- Am not a person who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature other than at arm's length price;
- Am not a person whose relative is a director or is in the employment of the company as some director or key managerial personnel;
- Am not a person who has been convicted by a court of an offence involving fraud and a period of ten years has not been elapsed from the date of such conviction. Have disclosed all direct and indirect pending and convicted proceedings under any law for the time being in force including Chartered Accountants Act, 1949 and rules or regulations made there under and Companies Act, 2013;
- Am not a person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting or specialized services as provided in section 144 of the Companies Act, 2013;
- Also certify here that, I am not disqualified under Chartered Accountants Act, 1949 and rules or regulations made there under.

Signature: \_\_\_\_\_

Name:

Designation:

Date:

**NB: Mail acknowledged is equivalent to undertaking the declaration.**

# Interplay of Code of Ethics & itors Report

## CONFIDENTIALITY STATEMENT 2023-2024

It is the policy of the RKP Associates and its branches (individually and collectively called "RKP Associates" hereinafter) that users (i.e., employees, article trainees, apprentice and any others who are permitted access to RKP Associates systems and/or information) shall respect and preserve the privacy, confidentiality and security of confidential information ("CI") which shall include:

1. Individually identifiable client's information in any format including but not limited to paper and electronic records,
2. Personnel information (e.g., disciplinary or other information about employees, article trainees, apprentice or any other staff),
3. Confidential business information of RKP Associates and/or third parties, including third-party software and licensed products or processes,
4. Other nonpublic information including information on operations, quality improvement, peer review, education, training, billing, or administration,

CI may be created internally or received from client's and may be in any format including paper, verbal/oral communication, audio recordings or in an electronic format. *I understand and agree that I will only access, maintain, use or disclose CI for legitimate work-related, need-to-know purposes.*

### I further agree that:

1. I will complete all required information privacy and security training required by RKP Associates policies and procedures.
2. I will not maintain CI on any unencrypted portable computing device (laptop, smartphone, tablet, etc.) and I will not electronically transmit CI in an unsecure manner.
3. I will not disclose my user name and/or password for any system, application or device to which I have access; I will not use another person's user name and password to access CI on any electronic system; and I will not leave any system, application or computer containing CI unattended while I am signed on.
4. I will not attempt to access any CI in electronic format on any system, application or device maintained by RKP Associates or access a restricted physical area containing CI without proper authorization or for purposes other than official purposes.

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# Interplay of Code of Ethics & Independent Auditors Report

*Cont'd...*

5. I will only alter or destroy CI in accordance with applicable RKP Associates policies and procedures.
6. I will immediately report to my supervisor (or the appropriate RKP Associates office) any known or suspected incident involving the unauthorized access, use or disclosure of CI and I will fully cooperate in any resulting investigation and make myself available for all related interviews and provide all relevant information requested during such investigation.
7. I will safeguard from loss, theft, or unauthorized use/access RKP Associates owned equipment/property on which CI is stored or through which CI may be accessed. I will immediately notify the RKP Associates Information Security Department if any portable computing device I use to store or access CI is lost or stolen.
8. I will not store or transmit CI on my personal equipment/property (such as personally owned computing devices) unless permitted by and in accordance with applicable RKP Associates policy or procedure.
9. I understand that my access to CI on RKP Associates electronic systems and my email account may be audited.

*I agree that I have read, understand and will comply with the terms of this Confidentiality Statement. I understand that my failure to comply with this Confidentiality Statement may result in termination of access to RKP Associates electronic records, personal civil or criminal legal penalties, disciplinary action (up to and including termination of employment or training status).*

**AFTER MY EMPLOYMENT OR WORK AT RKP ASSOCIATES ENDS, I WILL NOT TAKE ANY CONFIDENTIAL INFORMATION WITH ME AND I WILL NOT FURTHER USE OR DISCLOSE ANY CONFIDENTIAL INFORMATION.**

Signature : \_\_\_\_\_

Name :

Designation :

Date :

# Responding to Non-compliance with Laws And Regulations (NOCLAR) in case of Employment with Listed Entities (SECTION 260)



# Applicability

- Applicable to ~~all employees~~ Senior Professional Accountants in service, being employees of *listed entities* (ICAI's announcement Dated 29<sup>th</sup> September, 2022)

*Note - Senior Professional Accountants are KMPs*



# General Guidance

- Covers acts of omission or commission intentional or unintentional, which are contrary to the prevailing laws or regulations committed by
  - a) Employing organization
  - b) TCWG of the employing organization
  - c) Management of the employing organization
  - d) Other individuals working for or under the direction of the employing organization



- **Addressing the Matter**

In addition to the responsibilities common to PAs in Service and Practice as already discussed, PAs in Service have following additional responsibilities

- a) Discuss the matter with the his immediate superior and if the immediate superior appears to be involved in the matter, discuss the matter with the next higher level of authority
- b) Have the consequences of the non compliance or suspected non compliance rectified, remediated or mitigated.
- c) Reduce the risk of re occurrence
- d) Determine whether disclosure of the matter to the **external auditor**, is needed



- **Further Action(s)**

- a) Informing the management of the parent entity of the matter if the employing organization is a member of a group
- b) Disclosing the matter to an appropriate authority as specified under respective law
- c) Resigning from the employing organization

Note - Resigning from the employing organization is not a substitute for taking other actions that might be needed. However, there might be limitations as to the further actions available, in such circumstances, resignation might be the only available course of action.

# Case Study 1

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- CA. X, CGM (Finance) in a listed company, gave a proposal at the audit committee meeting to take back up of data on daily basis in terms of Rule 3 of the Companies (Accounts) Rules, 2014. However, the Chairperson of the Audit Committee did not take up this matter for discussion in the aforesaid meeting

# Case Study 2

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- CA. X, CGM (Finance) of a listed company. His assistant was having information about the quarterly results of the company. Before declaring the results, he shared the same with his engineer friend working in the other division of the same company.

# Case Study 3

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- CA. X is CGM (Budgeting) in a listed company. While preparing budget he considered the debtors turnover ratio as directed by the Director Finance. However, the debtors' turnover ratio submitted to the Bank was different from that considered in the budget.

# Case Study 4

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- Mr. X, a CA is in charge of payroll division While processing salary for the staff, he was of the view that though PF and ESI are correctly computed but all the eligible employees are not covered. He however passed it over and didn't discuss with the HR department.

# Case Study 5

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- In which of the following cases, the professional accountant should consider reporting to the appropriate authority
  1. The employing organization is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts)
  2. The employing organization is regulated and the matter is of such significance as to threaten its license to operate
  3. The employing organization is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the employing organization's securities or pose a systemic risk to the financial markets
  4. It is likely that the employing organization would sell products that are harmful to public health or safety
  5. The employing organization is promoting a scheme to its clients to assist them in evading taxes



# Taxation Services to the Audit Clients (Section 604)

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## **Code Ethics, 2009:**

Taxation to Audit client include compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to independence.

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## **Code of Ethics, 2019 (Volume-I): -**

Further guidance on Taxation matters provided. Generally, it states that providing tax services to an audit client might create a Self Review or Advocacy threat.

Prohibits to both Firms & Networks.

# Taxation Services to the Audit Clients....

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**Tax Return preparation** – Usually no threat

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**Tax Calculations for the Purpose of Preparing Accounting Entries (that will subsequently be audited by the Firm) –**

Creates a self-review threat; e.g., Entries pertaining to Tax Provisions - Current and Deferred.

Should not provide service in case of **Public Interest Entities**.

For others, appropriate safeguards should be adopted; e.g., Using professionals who are not audit team members to perform the service; having an appropriate reviewer not involved in providing the service or review of audit work etc.

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**Tax Planning/Other Tax Advisory Services -**

Might create self-review/advocacy threat - Appropriate safeguards should be adopted.

However, should not provide such service when effectiveness of tax advice is dependent on the appropriateness of a particular Accounting Treatment or Presentation and the effect could be material.

# Taxation Services to the Audit Clients

## Tax Services Involving Valuations –

May create self review or advocacy threat. After taking appropriate safeguards, might perform Valuation Services for **Tax Purposes** only, where the result of the valuation will not have a direct effect on the financial statements (only tax accounting entry is involved).

Would not usually create threat if effect on FS is immaterial or valuation is subject to external Tax or similar Regulatory Authority Review.

If not subject to such review, lot of other factors should be considered including

- The extent to which the valuation methodology is supported by tax law or regulation.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

## Assistance in the Resolution of Tax Disputes –

Might create a self- review or advocacy threat - appropriate safeguards to be adopted - Not to provide if involves acting as advocate for the audit client and amounts involved are material.

# FEES – Relative Size (Section- 410)



# What does Code of Ethics Vol. I say

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- When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the revenue of that firm *or of one partner or one office of the firm*, the dependence on that client and concern about losing the client create a self interest or intimidation threat.
- Actions that might be safeguards to address such a self interest or intimidation threat include
  - a) Increasing the client base of the partner or the office to reduce dependence on the audit client
  - b) Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

# What does Code of Ethics Vol. I say

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- Where for two consecutive years
  - ~~a) the total gross annual professional fees (“total fees) from the audit client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client~~
  - b) the firm shall
    1. Disclose the above fact to ~~TCWG~~ Institute.
    - ~~2. Consider the following actions might be a safeguard to address the threat created~~
      - ~~1. EQCR by a professional accountant prior to the opinion being issued on the third year’s financial statements ~~“a pre issuance review”~~
      - ~~2. EQCR by a professional accountant after the audit opinion on the third year’s financial statements has been issued, and before the audit opinion being issued on the fourth year’s financial statements ~~“a post issuance review”~~

# What does Code of Ethics Vol. I say

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## Exceptions

1. No such ceiling on the total fees of the Firm would be applicable where such fees does not exceed ~~Rs 5 00 000~~ Rs 20,00,000 in respect of a firm including fees received by the firm for other services rendered through the medium of a different firm or firms in which such member or firm may be a partner or proprietor.
2. No such ceiling on the total fees of a Firm would be applicable in the case of audit of government Companies, public undertakings, nationalised banks, public financial institutions, Regulators or where appointments of auditors are made by the Government.

- ~~8/8/8 Council Decisions~~

# What does Code of Ethics Vol. I say

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- Differentiated disclosure requirements

For non Public Interest Entities	For Public Interest Entities
Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 40 % of the total fees received by the firm	Disclosure is required where for two consecutive years, the gross annual professional fees from an audit client represent more than 20% of the total fees received by the firm



Thank  
You!