

## January, 2013

Q. Can a member in practice express his opinion on financial statements of any business or enterprises in which he, his firm or a partner in his firm has a substantial interest?

A. No, as per Clause (4) of Part I of the Second Schedule to the CA Act, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he expresses his opinion on financial statements of any business or any enterprise in which he, his firm or a partner in his firm has substantial interest. However, in case of a company, under Section 226(3)(e) of the Companies Act, 1956 he cannot do so even if he holds a single share.

The meaning of the word 'substantial interest' shall be the same as contained in the resolution passed by the Council in pursuance to Regulation 190A of the CA Regulations.

Q. Whether the Chartered Accountant who is appointed as a liquidator of a company can do the audit of that company?

A. No. Attention is drawn to the following portion appearing at P. 240 of the Code of Ethics, 2009 edition:-

"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 Liquidator of a Company, he should not qua a Chartered Accountant himself, audit the Statement of Accounts to be filed under Section 551(1) of the Companies Act, 1956. The audit in such circumstances should be done by a chartered Accountant other than the one who is the Liquidator of the Company."

Q. Whether the Chartered Accountant will be guilty of professional misconduct, if he:

(i) accept the auditorship of a college, if he is working as a part-time lecturer in the college.

(ii) accept the auditorship of a trust where his partner is either an employee or a trustee of the trust.

A. Yes, the Chartered Accountant will be guilty of professional misconduct in both the above referred circumstances.

Q. Can a member audit an enterprise/concern where he is a director?

A. No, in cases where the member is a director of a company the financial statements of which are to be audited and/or opinion is to be expressed, he should not undertake such job and/or express opinion on the financial statements of that company.

Q. Whether a member can audit an enterprise/concern where a partner or relative of the member is a director in the company who has a substantial interest?

A. No, for the reason as not to compromise with the independence, the member may desist from undertaking the audit of financial statements and/or expression of opinion thereon.

Q. Can an auditor write the books of accounts of the auditee?

A. No, Council directions under Clause (4) of Part I of the Second Schedule to the CA Act prescribes that an auditor is not permitted to write the books of accounts of his auditee clients.

Q. Whether a member who is carrying out statutory audit and also rendering management consultancy services to his auditee clients can receive fees for such other services, which are in excess of the audit fees.

A. Yes. However, in exercise of the powers conferred by clause (1) of Part II of the Second Schedule to the CA Act, the Council of the Institute has issued Guidelines which specify that a member of the Institute in practice shall not accept the appointment as statutory auditor of Public Sector Undertaking(s)/ Government Company(ies)/Listed Company(ies) and other Public Company(ies) having turnover of Rs. 50 crores or more in a year and accepts any other work(s) or assignment(s) or service(s) in regard to the same Undertaking(s)/Company(ies) on a remuneration which in aggregate exceeds the fee payable for carrying out the statutory audit of the same Undertaking/company.

Provided that in case appointing authority(ies)/regulatory body(ies) specify(ies) more stringent condition(s)/restriction(s), the same shall apply instead of the conditions/restriction(s) specified under the Guidelines.

Explanation :

1. The above restrictions shall apply in respect of fees for other work(s) or service(s) or assignment(s), payable to the statutory auditors and their associate concern(s) put together;

2. For the above purpose;

(I) The term "other work(s)" or "service(s)" or "assignment(s)" shall include Management Consultancy and all other professional services permitted by the Council pursuant to Section 2(2)(iv) of the Act, but shall not include :-

(a) audit under any other statute;

(b) certification work required to be done by the statutory auditors;

and

(c) any representation before an authority.

(II) The term "associate concern" means any corporate body or partnership firm which renders the Management Consultancy and all other professional services permitted by the Council wherein the proprietor and/or partner(s) of the statutory auditor firm and/or their "relative(s)" is/are Director/s or partner/s and/or jointly or severally hold "substantial interest" in the said corporate body or partnership;

(III) The terms "relative" and "substantial interest" shall have the same meaning as are assigned thereto under Appendix (9) to the CA Regulations;

3. In regard to taking up other work(s) or service(s) or assignment(s) of the undertaking/ company referred to above, it shall be open to such associate concern or corporate body to render such work(s) or service(s) or assignment(s) so long as aggregate remuneration for such other work(s) or service(s) or assignment(s) payable to the statutory auditor(s) together with fees payable to its associate concern(s) or corporate body(ies) do/does not exceed the aggregate of fee payable for carrying out the statutory audit.

Q. Whether a statutory auditor can accept the system audit of same entity?

A. Yes, the statutory auditor can accept the assignment of a system audit of the same entity, provided it did not involve any scrutiny/review of financial data and information.

Q. Whether a statutory auditor is eligible for appointment under Section 217(6) of the Companies Act, 1956 with the duty of seeing that the provisions of sub-sections (1) to (3) of Section 217 are complied with, particularly with regard to "Directors' Responsibility Statement"?

A. No, the Companies Act, 1956 requires the Directors to prepare the Directors' Responsibility statement regarding fulfillment of their responsibilities to prepare financial statements of the company in accordance with the applicable accounting standards and other generally accepted accounting policies and principles. The auditors' responsibility is to express opinion on financial statements, based on their audit. In view of the above, the question of asking the statutory auditor to certify the Directors' Responsibility Statement does not arise.

Q. Whether a Chartered Accountant is qualified to be appointed as statutory auditor of one subsidiary company when he is the internal auditor of another subsidiary of the same holding company.

A. No, a member in practice is not qualified to be appointed as statutory auditor of one subsidiary company when he is the internal auditor of another subsidiary of the same holding company.

In this regard, attention is drawn to the following directions as appearing in the Code of Ethics, 2009 edition.

"Public conscience is expected to be ahead of the law. Members, therefore, are expected to interpret the requirement as regards independence much more

strictly than what the law requires and should not place themselves in positions which would either compromise or jeopardize their independence."

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