

# Know Your Ethics

**Q. Whether a joint auditor will be responsible for the work done by other joint auditor?**

A. The Council direction under Clause (2) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 prescribes that in respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. However, on the other hand, all the joint auditors are jointly and severally responsible for the work which is not inter-se divided among the auditors.

**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 the member in practice can permit his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast?**

A. No, under Clause (3) of Part-I of the Second Schedule to the Chartered Accountants Act, 1949, a member in practice cannot permit his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transaction in a manner which may lead to the belief that he vouches for the accuracy of the forecast. However, the Council has decided that 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.

**Q. If a member has passed any additional course of the ICAI, is he permitted to print such qualification on visiting cards, letter heads and other stationery?**

A. Yes, under Clause (7) of Part I of the First

Schedule to the Chartered Accountants Act, 1949, a member is permitted to print such qualification on the visiting cards, letter heads & other stationery. However, he cannot use the designation 'Information System Auditor' or the like.

**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. 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 of mind, the member may desist from undertaking the audit of financial statements and/or expression of opinion thereon.

**Q. Whether a member in practice will be liable, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading?**

A. Yes, as per Clause (5) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice shall be deemed to be guilty of professional misconduct, if he fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary to make the financial statement not misleading.

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

A. No, Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 and Regulations framed there under may be referred.

\* Contributed by the Ethical Standards Board of the ICAI

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**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 Chartered Accountants Act, 1949 prescribes that an auditor is not permitted to write the books of accounts of his auditee clients.

**Q. Whether a member in practice will be liable if he fails to report a material mis-statement known to him to appear in a financial statement with which he is concerned in a professional capacity?**

- A. Yes, as per Clause (6) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice shall be deemed to be guilty of professional misconduct, if he fails to report a material mis-statement known to him to appear in a financial statement with which he is concerned in a professional capacity.

**Q. Whether a member in practice will be liable in a case where he was alleged to have signed two balance sheets on two different dates for the same financial year, the first one with a clean report and the second one with a qualified report?**

- A. Yes, the action of the Chartered Accountant in signing two Balance Sheets on two different dates for the same financial year will constitute professional misconduct under Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949, which states that a member in practice shall be deemed to be guilty of professional misconduct, if he is grossly negligent in the conduct of his professional duties.

**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 of the Institute will be liable, if he contravenes any of the provision of the Act or the Regulations or the Guidelines issued by the Council?**

- A. Yes, as per Clause (1) of Part II of Second

Schedule to the Chartered Accountants Act, 1949, a member in practice shall be deemed to be guilty of professional misconduct, if he contravenes any of the provisions of Chartered Accountants Act or the Regulations made under or any Guidelines issued by the Council.

**Q. Whether a member in practice will be held liable for failing to keep moneys of his client in a separate banking account or to use such moneys for purposes other than they are intended for?**

- A. Yes, as per Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice shall be deemed to be guilty of professional misconduct, if he fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or uses such moneys for purposes other than they are intended for.

**Q. Whether a member of the Institute in practice is required to maintain books of accounts?**

- A. Yes, in exercise of the powers conferred by Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949, the Council of the Institute has issued a Council General Guidelines, 2008 which specify that a member of the Institute in practice shall be deemed to be guilty of professional misconduct, if he or the firm of Chartered Accountants of which he is a partner fails to maintain and keep in respect of his/its professional practice, irrespective of the volume of transaction, proper books of account including the following:
- (i) a Cash Book;
  - (ii) a Ledger

**Q. Whether a member in practice will be liable if he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances?**

- A. Yes, as per Clause (9) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice shall be deemed to be guilty of professional misconduct, if he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances. ■