

Know Your Ethics

Ethical issues in Question/Answer form¹



Communication with the Previous Auditor

Q. Whether posting of a letter under “Certificate of Posting” is sufficient to establish communication with retiring auditor?

A. No, a mere posting of a letter “Under Certificate of Posting” is not sufficient to establish effective communication with the retiring auditor unless there is some evidence to show that the letter has in fact reached the person communicated with. 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. Communication by a letter sent “Registered Acknowledgement due” or by hand against a written acknowledgement would in the normal course provide such evidence.

Q. Whether a Chartered Accountant can accept appointment as an auditor after sending communication to the previous auditor through registered post without acknowledgment due?

A. No, a Chartered Accountant cannot accept an appointment as an auditor

after sending communication to the previous auditor through registered post without acknowledgment due, as this may tantamount to professional misconduct under clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949.

Q. Whether communication with the previous auditor, as contemplated under Clause (8) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 is permissible vide e-mail /sms?

A. No, communication vide e-mail/ sms is not permissible as an evidence of communication being sent, as required under Clause (8) of Part-I of the First Schedule to the Chartered Accountants Act, 1949.

Q. Whether a Chartered Accountant will be deemed to be guilty of professional misconduct if he accepts his appointment as an auditor immediately after intimating his appointment over the phone to the previous auditor?

A. Yes, the member would be held guilty of professional misconduct for the following reasons:

¹(Contributed by Ethical Standards Board of ICAI)

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That he had failed to communicate with the retiring auditor in writing; and

That he did not wait for a reasonable length of time for a reply to be received from him.

Q. What is the intention behind communicating with the retiring auditor?

- A. As per Council directions under Clause (8) of Part-I of the First Schedule to the Chartered Accountants Act, 1949 as appearing in Code of Ethics, 2009, professional courtesy alone is not the major reason for requiring a member to communicate with the existing accountant. 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. 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.

Q. Whether communication with previous auditor is necessary in case of appointment as statutory auditor by nationalised and other Banks?

- A. Yes, Clause (8) of Part I of the First Schedule to the Chartered Accountants Act, 1949 is equally applicable in case of nationalised and other Banks and also to Government agencies.

Q. Whether communication by the Incoming auditor is mandatory with the previous auditor in respect of various audit assignments, like the concurrent audit, revenue audit, tax audit and special audits etc.?

- A. Yes, the requirement for communicating with the previous auditor would apply to all types of audits viz., statutory audit, tax audit, internal audit, concurrent audit or

any other kind of audit. The Council has laid down detailed guidelines in this regard and the same are appearing in the Code of Ethics, 2009 edition.

Q. Whether a Chartered Accountant who is appointed as tax auditor for conducting special audit under the Income-tax Act, 1961 by the IT Authorities is required to communicate with statutory auditor?

- A. Yes, Council direction under Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 prescribes that it would be a healthy practice if a tax auditor appointed for conducting special audit under the Income-tax Act, 1961 communicates with the members who has conducted the statutory/tax audit.

Q. Whether a member in case of an Audit of government Companies/Bank or their branches can accept the Audit immediately after he has sent the communication to the previous?

- A. 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, 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. ■