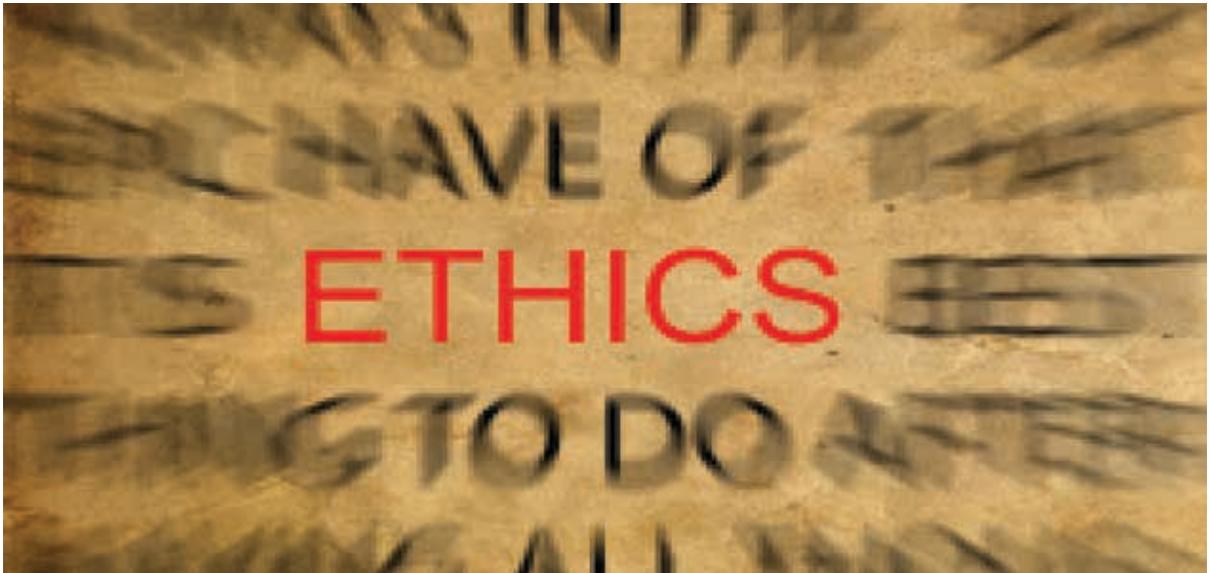


Ethical issues in Question/Answer form¹



On Confidentiality

Q. Can a Chartered Accountant in practice disclose information acquired in the course of his professional engagement?

A. No, as per Clause (1) of Part I of Second Schedule to the Chartered Accountants Act, 1949 a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he 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.

Q. Whether an auditor is required to provide to the client or to main auditor of the Head Office of the same enterprise access to his audit working papers?

A. No, working papers are the property of an auditor. An auditor is not required to provide the client 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. 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.

Certification of Financial Statements

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 as appearing in Code of Ethics, 2009 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.

Prospective financial 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 in a manner which may lead to the belief that he vouches for the accuracy of the forecast?

A. No, as per clause (3) of part-I of Second Schedule to the Chartered Accountants Act, 1949, a member in practice will be deemed to be guilty of professional misconduct if he permits his name or the name of his firm to be used in connection with an estimate of earnings contingent upon future transaction

¹Contributed by Ethical Standards Board of ICAI

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in a manner which may lead to the belief that he vouches for the accuracy of the forecast. As per 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 member has to comply with SAE 3400 while drafting the report for such engagements.

On Substantial Interest

Q. Can a member in practice express his opinion on financial statements of any business or enterprises in which he, his relative, 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 Chartered Accountants Act, 1949, 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. 'Substantial interest' here has the same meaning as contained in the resolution passed by the Council in pursuance to Regulation 190A of the Chartered Accountants Regulations, 1988.

However, in case of a company, under section 141(3)(d)(i) of the Companies Act, 2013, a member cannot accept audit even if he or his partner holds a single share.

Further, as per Chapter IV of Council General Guidelines, 2008, a member shall not express his opinion on the financial statement of any business or enterprise in which one or more persons, who are his relatives within the meaning AS -18 have either by themselves or in conjunction with such member, a substantial interest in such business or enterprise.

However, in case of a company, under section 141(3)(d)(i) of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 relative of a partner cannot hold security or interest in the company of face value in excess of one lakh rupees.

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 Chartered Accountants Regulations, 1988 framed there under may be referred.

Q. Whether the Chartered Accountant will be guilty of professional misconduct, if he: (i) accepts the auditorship of a college, if he is working as a part-time lecturer in the college. (ii) accepts 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 Chartered Accountant accept the assignment of audit of a company in which 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 accept audit of a company where the relative of the member is a director in the company?

A. No, since a member is not eligible for appointment as an auditor of a company as per Section 141 (3) (f) of Companies Act, 2013, if his relative is a director, or is in the employment of the Company as a director, or key managerial person.

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 prescribe that an auditor is not permitted to write the books of accounts of his auditee clients. Further Section 144 of the Companies Act, 2013 bars the auditor of a company to directly or indirectly render accounting and book keeping services to the said company, or its holding company or subsidiary company. ■