

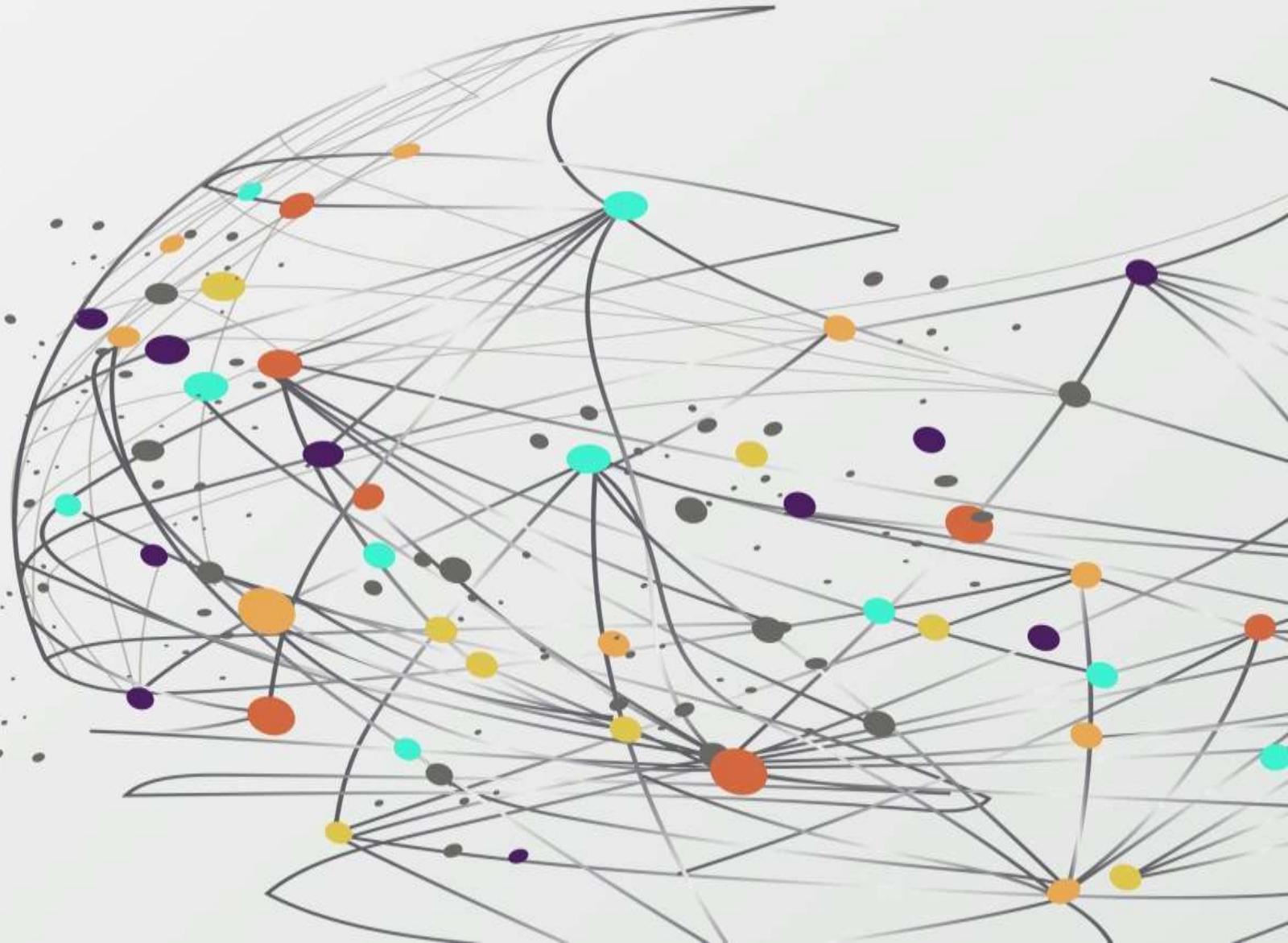
# PEER REVIEW-COMPLIANCE WITH ETHICAL STANDARDS

Presented by

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## WHAT IS PEER REVIEW

- As per Clause 2 (14) of the Peer Review Guideline, 2022
- Peer Review - means an examination and review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the Technical, Professional and Ethical Standards as applicable including Audit Quality Maturity Model wherever applicable or any other regulatory requirements as may be prescribed by the Council or any Committee and whether the same were consistently applied during the period under review



## In Brief :

- Therefore, in short, the term “peer review” may be construed as review of work done by a professional, by another similar professional (peer),
- Peer Review process is based on the principle of **systematic monitoring** of the procedures adopted and records maintained while carrying out audit & assurance services in the course of one’s professional responsibility to ensure and sustain quality.
- Peer Review is primarily directed towards ensuring as well as enhancing the **quality of audit and assurance services of Chartered Accountants in Practice.**
- Peer Review of a Practice Unit is conducted by an independent evaluator known as a Peer Reviewer.
- The Peer Review process is intended to review the quality control framework of the Practice Unit as well as proper and consistent application of such control frameworks across engagement samples selected for review [Clause 3(2)].

## OBJECTIVES :



- The main objective of Peer Review is to ensure that in carrying out the assurance service assignments, the members of the Institute –
  - a) comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and
  - b) have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services. [Clause 3(3)]
- It is important to note that Peer Review does not seek to redefine the scope and authority of any of the Technical, Professional and Ethical Standards but only seeks to ensure that they **are implemented, both in letter and spirit.**
- Therefore, the objective is to maintain and enhance the quality of assurance services by **providing appropriate guidance** rather than simply pointing out deficiencies of the Practice Unit.

# SCOPE...

1. The Peer Review process shall apply to all the assurance engagements signed by a Practice Unit during the period under review.
2. Once a Practice Unit is subjected to Peer Review, its assurance engagement records, working papers, pertaining to the Peer Review Period shall be subject to examination and review by the Peer Reviewer.
3. A Practice Unit having one or more branches at various locations in India may opt to get the Peer Review of any branch or branches conducted by a Branch Peer Reviewer. The Reviewer conducting the Peer Review of the Head Office shall consider the report of the Branch Peer Reviewer and shall issue a consolidated report for the Practice Unit



# Why the Need for Change?

The world is changing at an unprecedented pace. New technologies, emerging business models, and evolving client expectations are fundamentally reshaping the way we practise. The traditional landscape of audit, compliance, and consulting has been dramatically expanded by virtual services, multidisciplinary collaborations, and entirely new domains.

Emerging areas such as artificial intelligence, sustainability reporting, digital transformation, and the Insolvency and Bankruptcy Code (IBC) now demand our expertise and attention. Our profession must evolve to meet these challenges head-on.

# The Imperative for Evolution

**The Code of Ethics must evolve to remain relevant in this rapidly changing environment. Change is not just inevitable; it is essential for relevance.**

**If we do not adapt, we risk falling behind the curve and losing the trust that is the hallmark of our profession. Our ethical framework must be dynamic, responsive, and forward-looking.**

# Let Us Not Fear Change

Let us instead be fearful of irrelevance

The greatest risk to our profession is not change itself, but the failure to adapt. By embracing reform, we secure our relevance, strengthen our ethical foundation, and ensure that we continue to serve the public interest with distinction.

# Amendments to the Code of Conduct: Digital Age

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## Reforms for Chartered Accountants

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A comprehensive overview of progressive changes enabling CAs to thrive in the digital economy whilst maintaining professional integrity and ethical standards.

## **Renumbering of Volumes of Code of Ethics in 13<sup>th</sup> Edition of Code of Ethics**

**Volume-I of Code of Ethics is now renumbered as Volume-II and Vice-versa.**

**The revised structuring of Code of Ethics is as under:-**

- Volume-I- Incorporates amendments arising from the CA Act, Council decisions, and changes in general law and revisions reflecting contemporary developments.
- Volume-II - aligns with IESBA Code of Ethics 2024 and subsequent Pronouncements with modifications as per the domestic provisions and includes Ethics Standards for Sustainability Assurance.
- Volume III- will now include guidelines issued by the Council (previously part of Volume -II) as a separate publication.  
Earlier Volume III (Case Laws Referencer) will be published as a separate publication.

# "Righteousness protects the one who upholds righteousness."

## The Principle

When individuals or institutions follow ethical conduct and fulfil their duties with integrity, these very principles become their safeguard.

## The Protection

By protecting dharma, we receive protection, stability, and trust in return. Ethics is not merely a constraint—it is our foundation and strength.

## Our Commitment

This ancient wisdom guides our profession today. Upholding ethical standards safeguards not only our clients but also our collective reputation and future.

## **Employing terms from CA Act in place of IESBA Terms**

- IESBA Code term “Professional Accountant” (PA), i.e. “An individual who is a member of an IFAC member body”.
- CA Act, Regulations refer ‘Chartered Accountant’ (CA)
- **Change: Term Employed “Chartered Accountant” (CA) in place of “Professional Accountant” (PA)**
- IESBA also uses “professional accountant in public practice”.
- **Changes: 1 “Chartered Accountant in practice” in place of “professional accountant in public practice”**
- **2. “Chartered Accountant in service” in place of “professional accountant in service”**

# Educational Videos – Disclosure Permissions

01

## Previous Restriction

Chartered Accountants could create educational videos but were prohibited from mentioning their firm name or providing contact details, limiting professional identity and accessibility.

02

## Revised Permission

Members may now include their firm name (if proprietor or partner) and full contact details—mobile number, email address, and office address—within educational content.

03

## Professional Impact

This modernisation aligns with digital engagement norms, enabling authentic content creation that enhances firm visibility, supports personal branding, and expands professional reach amongst prospective clients.

# Credits in Media Content

## Existing Framework

CA firms could receive acknowledgement in television or film credits for their contributions, but recognition across other public platforms remained unaddressed.

## Strategic Advantage

This change reflects the interdisciplinary role of modern CAs, removes arbitrary barriers to professional acknowledgement, and promotes reputation-building across diverse media channels and public discourse.

## Expanded Recognition

The scope now encompasses all customary crediting platforms—books, magazines, podcasts, webinars, and professional events—where contributors receive formal recognition.

# Event Sponsorship by Members



## **Previous Limitation**

Chartered Accountants could only sponsor ICAI events specifically approved under Continuing Professional Education (CPE) activities, restricting broader institutional engagement.



## **Clarified Permission**

Members and firms may now sponsor additional ICAI events, subject to Council approval, expanding opportunities for institutional collaboration and support.



## **Organisational Benefit**

Encourages wider financial and knowledge-based support for ICAI initiatives whilst enabling strategic brand positioning within professional development environments.

# Seminars and Virtual – Educational Programmes



## Traditional Format

Physical training courses and seminars for clients and staff were permitted, but virtual delivery methods remained unspecified.

## Digital Integrationing

Members may now explicitly conduct webinars and virtual programmes, inviting participants without category restrictions or geographic limitations.

## Scalable Reach

Aligns with post-pandemic realities, enabling national and international outreach, education, and professional engagement through digital platforms.

# Articles and Letters to the Press

## Former Practice

When authoring articles or letters on professional matters, members could only use the designation "Chartered Accountant", without firm attribution.

## Enhanced Attribution

Members may now include their firm name in published articles and press communications, improving traceability and professional recognition.

## Thought Leadership

This change enhances credibility, supports firm-level recognition, builds thought leadership, and reflects contemporary standards of professional author attribution.

# Networking – Use of Name and Website

1

## Limited Identity

Networks could use "Network Firms" on stationery but lacked provision for dedicated websites or comprehensive digital presence.

2

## Digital Platform Approval

ICAI-registered networks may now develop dedicated websites including constituent firm names and networking model details (Alliance or Lead Firm), subject to guidelines.

3

## Unified Professional Image

Modernises multi-firm network identity, facilitating unified presentation for large assignments and international collaborations whilst promoting transparency and standardisation.

# Advertising – Design Guidelines Relaxed

## Previous Constraints

- **Font size capped at 14 points maximum**
- **Client names strictly prohibited**
- **Assignment details forbidden**
- **Professional photographs restricted**

## Liberalised Framework

- **Font size restrictions removed entirely**
- **Client names permitted with written consent**
- **Assignment details allowed with approval**
- **Event photographs enabled on social media**

## Competitive Advantage

**Provides flexibility in branding whilst enabling firms to demonstrate track record and capabilities transparently, ethically, and professionally—improving market competitiveness without compromising standards.**

# Definition of "Write-up" for Advertising

## **Original Scope**

The term "write-up" was narrowly defined, covering primarily print materials and websites, without acknowledging modern digital platforms or social media channels.

## **Comprehensive Expansion**

Now encompasses directories, social media, and contemporary formats, including both "push" (proactive) and "pull" (reactive) information delivery mechanisms.

- Limited advertisement through write up now allowed
- Guidelines dated 14th May,2008 - a "write up" is the writing of particulars setting out services rendered by the Members issued, circulated or published by way of print or electronic mode or otherwise including in newspapers, journals, magazines and websites ( in Push as well in Pull mode) in accordance with the Guidelines.
- The write-up should not include the names of the clients (both past and present).
- The write-up should not contain any information about achievements / awards or any other position held.
- It is mandatory to mention the membership number and firm registration number with Institute.

# Audit Fees: Digital Payments and Unpaid Fee Restrictions

## Enhanced Financial Governance

The Code now mandates that audit fees must be received through banking or digital modes only, promoting transparency and accountability in line with India's digital governance initiatives.

**Public Interest Entities:** Auditors cannot sign the current year's report if previous year's fees remain undisputed and unpaid.

**Non-PIEs:** The restriction applies after two consecutive years of non-payment.

This provision reduces financial dependence on clients and mitigates threats to auditor independence, particularly in contentious situations.

# Minimum Fees and Professional Pricing Standards

## Combating Fee Undercutting

A significant ethical threshold has been established: members are now restricted from charging fees below the minimum prescribed by statute, regulator, or ICAI itself.

## Professional Impact

- Eliminates destructive fee wars amongst practitioners
- Ensures sustainable service delivery
- Promotes fair pricing and quality assurance
- Protects audit quality from compromise

This provision upholds professional dignity whilst ensuring clients receive quality services commensurate with appropriate fees.

# SHARING OF FEES OR PARTNERSHIP WITH A NON-MEMBER

- See Regulations 53A and 53B of CA Regulations.
- Partnership with sister-professionals like CS, CWA, lawyers allowed (subject to certain conditions).
- Sharing fees with other professionals like CS, CA,
- Actuary, B.E., B.Tech, Architect, Lawyer and MBA allowed.

## Comparison Summary

Feature	Regulation 53A(Profit Sharing)	Regulation 53B(Partnership)
Scope	Allows sharing fees with Non-CAs.	Allows Non-CAs to become partners.
MBAs	Allows to share profits	Not Allowed as partners.
Engineers	Allowed based on Degree.	Allowed only if members of the Institution of Engineers.
CS/CMA	Allowed.	Allowed.

# Enhanced Operational Flexibility



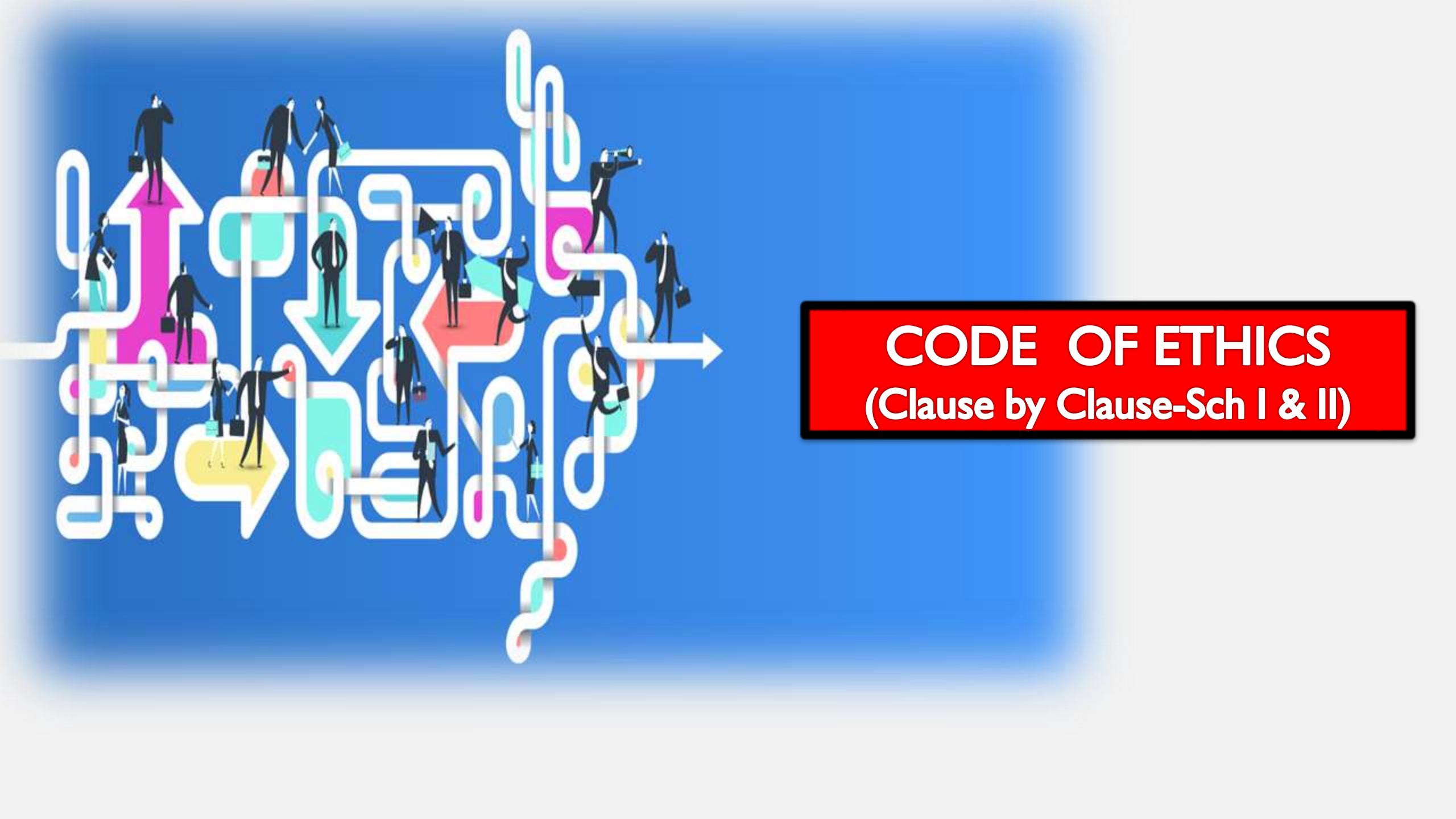
## Audit Assignment Thresholds

Turnover ceiling for undertaking statutory audits alongside other assignments increased from ₹50 crores to ₹250 crores, reflecting client scale growth.

## Fee Dependency Disclosures

Reporting period extended to five years; exemption threshold raised from ₹20 lakhs to ₹50 lakhs with a ₹20 lakh per-client cap for non-PIEs.

These changes provide greater operational flexibility for firms handling complex, large-scale entities, whilst maintaining robust independence safeguards through firm structure and enhanced review procedures. The extended monitoring period ensures long-term regulatory scrutiny where concentration risks exist.



## **CODE OF ETHICS**

**(Clause by Clause-Sch I & II)**

# **How Many schedules and how many Sections in The Chartered Accountants Act, 1949?**

- There are Two Schedules- First Schedule and Second Schedule depending on the gravity of offence and quantum of punishment.
- There are 32 Sections in The Chartered Accountants Act, 1949

**Q:**Whether the offences are confined to Two schedules to Chartered Accountants Act only?

No. In addition to the Schedules, Section 8(v) and Chapter VII (Sections 24, 24A, 25 to 28) of the Chartered Accountants Act, 1949 provide for disciplinary consequences, offences and prosecution under various circumstances.

**Section 132(4)** of the Companies Act, 2013 empowers the National Financial Reporting Authority (NFRA) to investigate and impose penalties for professional misconduct in respect of auditors of specified companies.

## **Professional or other misconduct defined**

**‘22. For the purposes of this Act, the expression “professional or other misconduct” shall be**

- deemed to include any act or omission, on the part of any member of the Institute either in his individual capacity or as partner or owner of a firm, as mentioned in any of the Schedules,
- but nothing in this section shall be construed to limit or abridge in any way the power conferred or duty cast on the Director (Discipline) under sub-section (1) of section 21 to inquire into the conduct of such member or firm, under any other circumstances.’.

# **Misconduct**

## **I) MISCONDUCT can be broadly divided into two categories**

- a) Professional Misconduct**
- b) Other misconduct.**

## **2) Broadly 35 items of Misconduct are there in the Schedules**

- a) First schedule-in Four Parts has 19 items (Rationale behind dividing schedules I Parts)**
- b) Second Schedule-in three parts has 16 items**

## **Professional or other misconduct defined (contd..)**

The definition is not exhaustive but **inclusive one**, as such may include many more criteria.

**Any act or omission on the part of the member** as mentioned in any of the schedules. (presently First and Second Schedule)

Misconduct may either in his individual capacity

Misconduct may be **as a partner** of the firm

Misconduct may be **as a proprietor** of the Firm

## **Professional or other misconduct defined Contd**

However, the Director (Discipline) **has vast power** and duty to inquire into the conduct of the

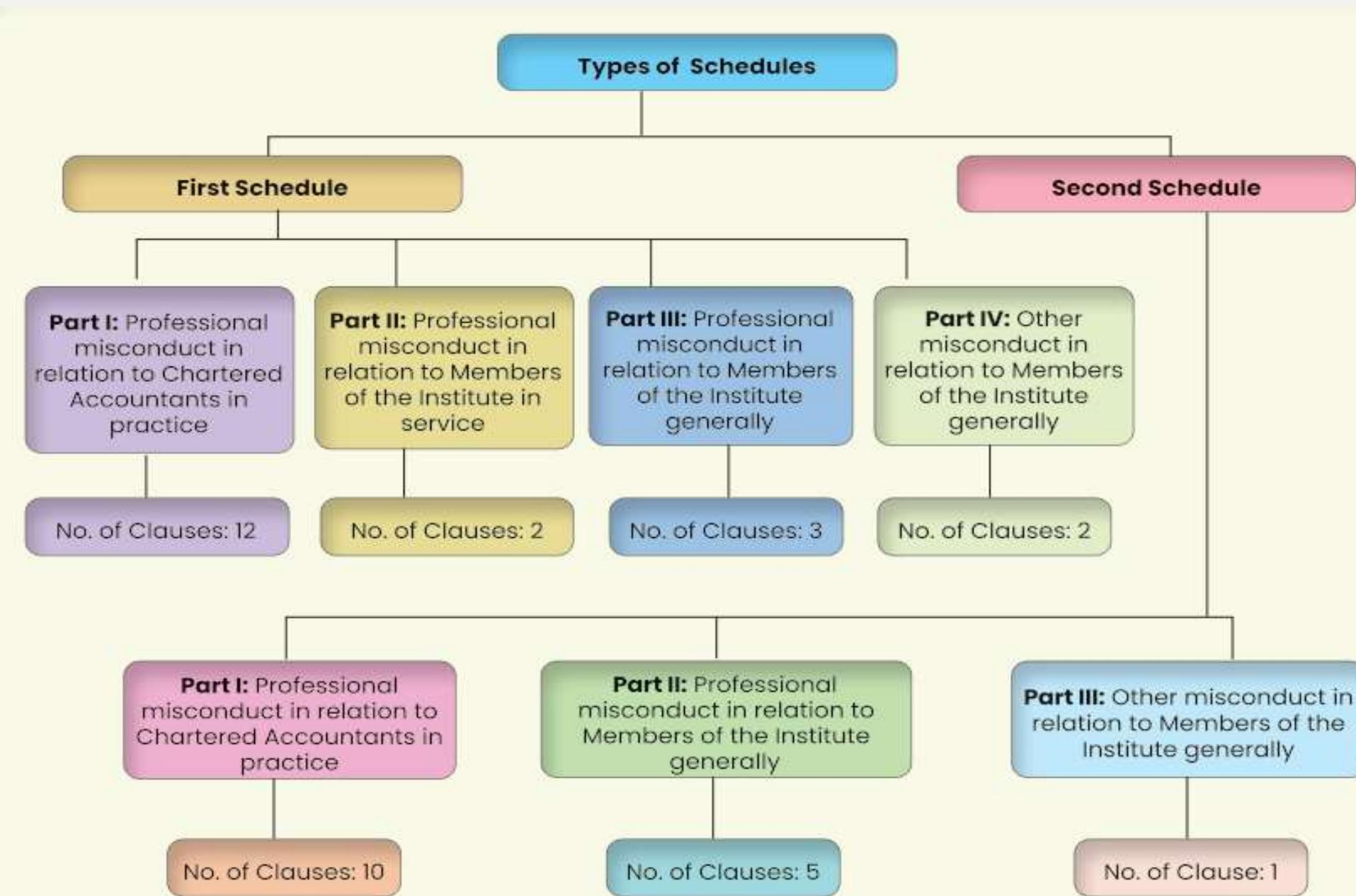
- Member or
- Firm or
- Member and firm

**Under any other circumstances** also (i.e. in addition to circumstances stated in schedules)

This Section **cannot limit or curtail, in any way, the power or duty** conferred to the Directorate.

## **What constitutes ‘Misconduct’**

- under any other circumstances’ has to be determined on case to case basis keeping in view the facts of the circumstances of each case.
- Fraud, intention to deceive and committing an act which affects the public or society at large could be in the ambit of such misconduct.



# **WHAT IS THE RATIONAL BEHIND DIVIDING SCHEDULES INTO PARTS?**

The **rationale** behind dividing the **Schedules** (especially the **Second Schedule of the Chartered Accountants Act, 1949**) into **Parts** is to **systematically classify misconduct based on the nature of members, gravity of default, and scope of applicability**, so that regulation, adjudication, and discipline are **clear, proportionate, and enforceable**.

## First Schedule

Part I- 12 Clauses-Professional misconduct-members in Practice

Part II- 2 Clauses - Professional misconduct-members in Service

Part III-3 Clauses – Professional misconduct -generally (all members)

Part IV-2 Clauses- other misconduct -generally (all members)

# **WHAT IS THE RATIONAL BEHIND DIVIDING SCHEDULES INTO PARTS? Contd....**

## **Second Schedule**

**Part I- 10 clauses-Professional misconduct-members in Practice**

**Part II-5 clauses - Professional misconduct- generally (all members)**

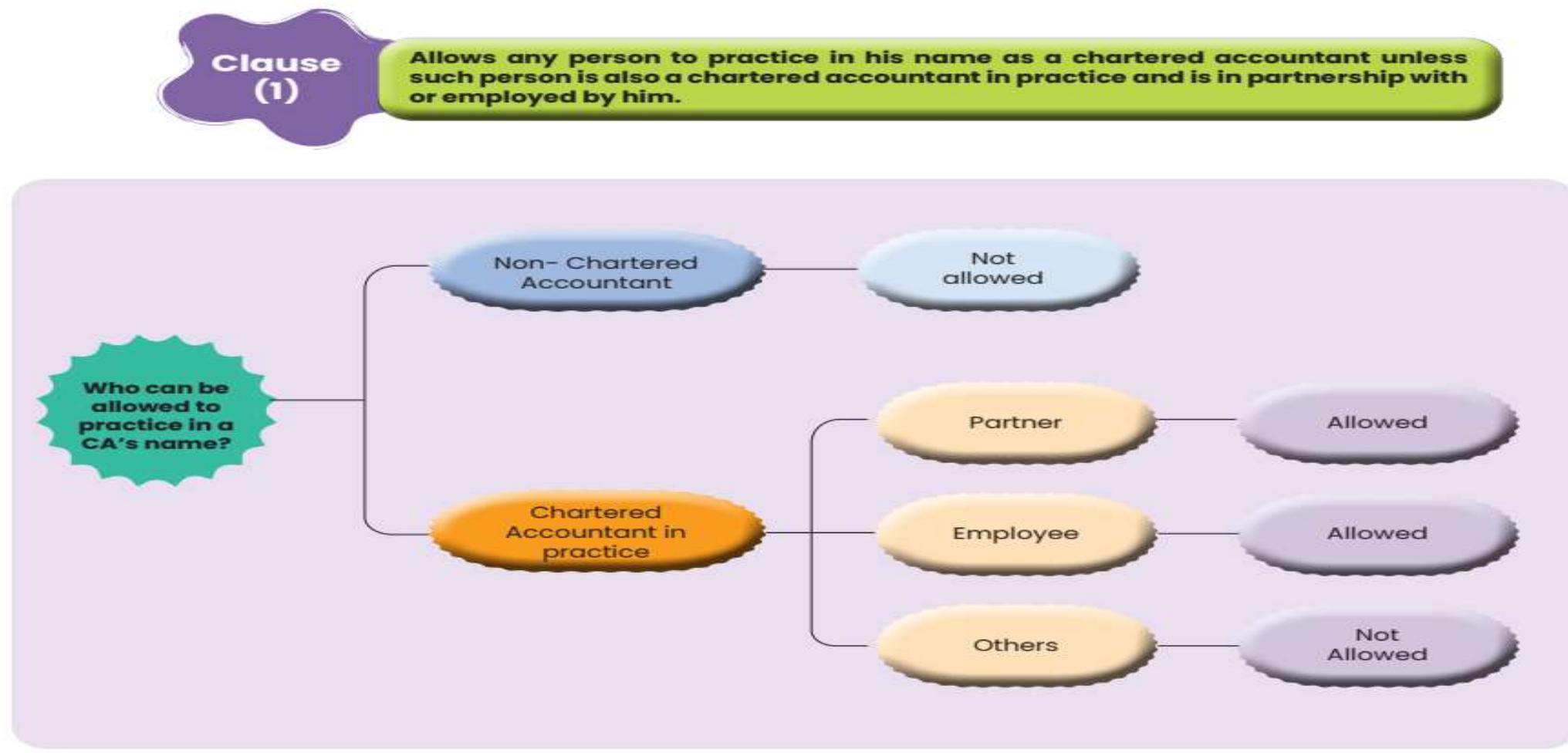
**Part III- 1 Clause -other misconduct -generally (all members)**

# FIRST SCHEDULE

## PART I- PROFESSIONAL MISCONDUCT-MEMBERS IN PRACTICE

### PART I- Professional misconduct in relation to Chartered Accountants in practice

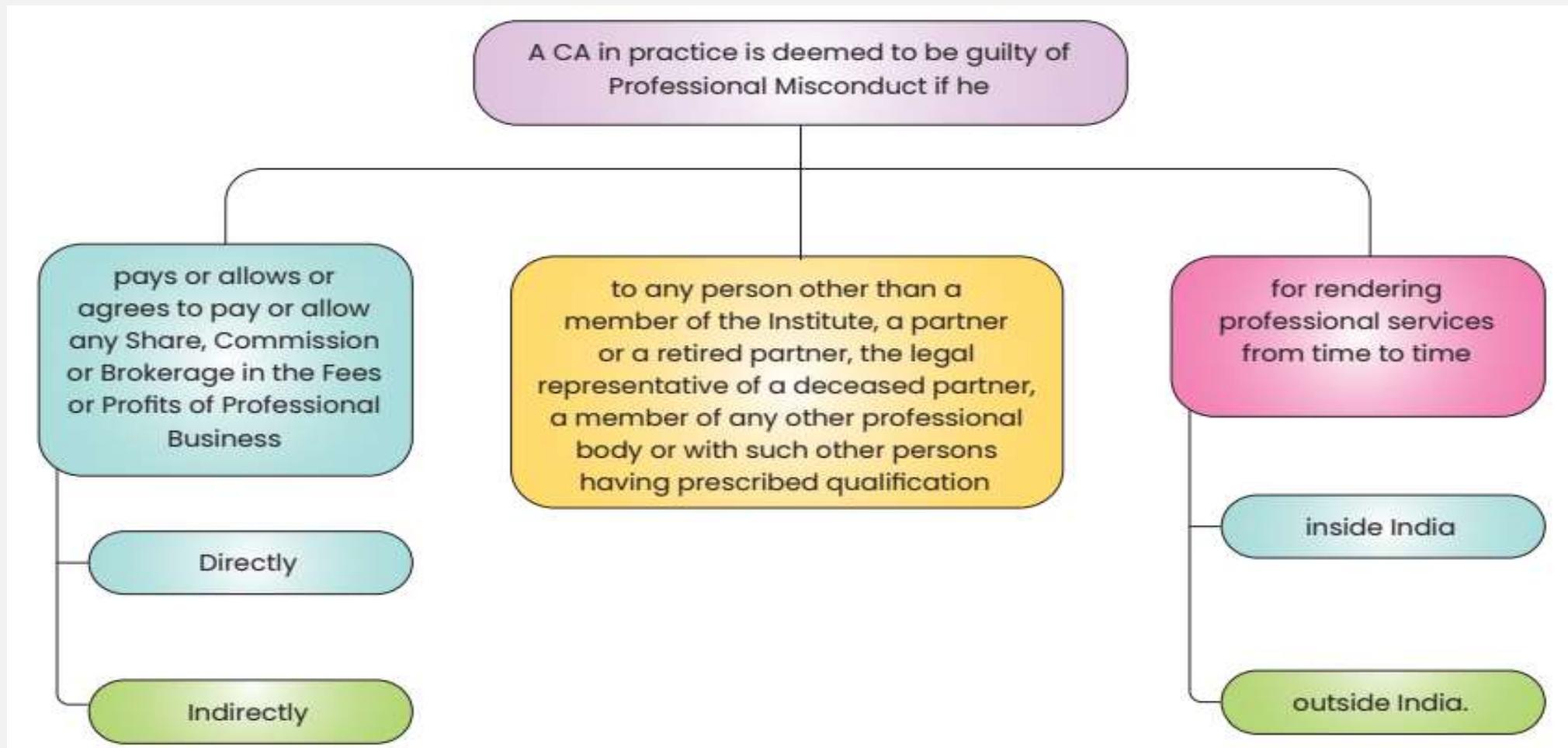
A Chartered Accountant in practice is deemed to be guilty of professional misconduct if he



# **FIRST SCHEDULE**

## **PART I- PROFESSIONAL MISCONDUCT-MEMBERS IN PRACTICE**

### **Clause 2 –Sharing Fees with other than member, directly or indirectly**



## **FIRST SCHEDULE - PART I- PROFESSIONAL MISCONDUCT-MEMBERS IN PRACTICE**

### **Clause 3 –Accepts Fees from other than members**

A CA in practice is deemed to be guilty of Professional Misconduct if he

The diagram consists of four hexagonal boxes arranged horizontally. The first two boxes are light green, the third is light blue, and the fourth is light teal. The text inside the boxes is as follows:

- accepts or
- agrees to accept
- any part of the profits of the professional work
- of a person who is not a member of the Institute.

**Referral Fees amongst members:** It is not prohibited for a member in practice to charge Referral Fees, being the fees obtained by a member in practice from another member in practice in relation to referring a client to him.

## **FIRST SCHEDULE - PART I- PROFESSIONAL MISCONDUCT-MEMBERS IN PRACTICE**

### **Clause 4 –Enters into Partnership with other than Member of Institute**

#### **Clause (4)**

**Enters into partnership, in or outside India, with any person other than Chartered Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (v) of sub-section (1) of section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships.**

A Chartered Accountant in practice is not permitted to enter into partnership with any person other than a Chartered Accountant in practice or such other persons as may be prescribed by the Council from time to time. The members may, however, take note of the fact that they cannot form Multi-Disciplinary partnerships till such time that Regulators of such other professionals also permit partnership with chartered accountants, and guidelines in this regard are issued by the Council.



**FIRST SCHEDULE - PART I- PROFESSIONAL MISCONDUCT-  
MEMBERS IN PRACTICE**

**Clause 5** –Secures professional business through non- employee/non-partner **or unlawful means**

**Clause  
(5)**

Secures either through the services of a person who is not an employee of such Chartered Accountant or who is not his partner or by means which are not open to a Chartered Accountant, any professional business.

Provided that nothing herein contained shall be construed as prohibiting any agreement permitted in terms of item (2), (3) and (4) of this part.

It may further be noted that the acts of partners and employees of the firm towards securing professional work are subject to the provisions of Clauses (6) and (7) of Part-I of First Schedule of the Chartered Accountants Act, 1949.

## **FIRST SCHEDULE - PART I- PROFESSIONAL MISCONDUCT-MEMBERS IN PRACTICE**

### **Clause 6 –Solicits clients or professional work directly or indirectly**

**Solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.**

**Provided that nothing herein contained shall be construed as preventing or prohibiting –**

**Clause  
(6)**

(i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

(ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

Further, keeping in view the broad purview of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, an advertisement of Coaching/teaching activities by a member in practice may amount to indirect solicitation, as well as solicitation by any other means, and may therefore be violative of the provisions of Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

## **FIRST SCHEDULE - PART I- PROFESSIONAL MISCONDUCT-MEMBERS IN PRACTICE**

**Some forms of soliciting work which the Council has prohibited are discussed below**

Advertisement and note in the press –  
The exceptions to the above rule are

Member may request another Chartered Accountant in practice for professional work.

Member may advertise changes in partnerships or dissolution of a firm, or of any change in address of practice and telephone numbers.

Member is permitted to issue a classified advertisement in the journal/newsletter of the Institute intended to give information for sharing professional work on assignment basis or for seeking partnership or salaried employment of an accountancy nature

Announcements should be limited to a bare statement of facts & consideration given to the appropriateness of the area of distribution of the newspaper/magazine & number of insertions.

Provided it only contains the accountant's name, address or telephone number, fax number, e-mail address and address(es) of social Networking sites of members.

Mere factual position of experience and area of specialisation, relevant to seek response to the advertisement, are permissible.

## **FIRST SCHEDULE - PART I- PROFESSIONAL MISCONDUCT- MEMBERS IN PRACTICE**

### **Clause 7 –Advertises professional attainments or services or uses designation or expression other than CA**

**Clause  
(7)**

Advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognised by the Central Government or may be recognized by the Council.

Provided that a member in practice may advertise through a write up, setting out the service provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council.

# **FIRST SCHEDULE.. In brief**

## **a) Part I- 12 items-Professional misconduct-members in Practice**

1. Allows any person to practice as CA unless such person is also CA & is in partnership with or employed by him.
2. Pays or agrees to pay any share, commission or brokerage with person other than Member of Institute.
3. Accepts or agrees to accept any part of profit from other than Member of Institute.
4. Enters into partnership with other than Member of Institute
5. Secures professional business through non- employee or non-partner or unlawful means
6. Solicits clients or professional work, directly or indirectly
7. Advertises professional attainments or services or uses designation other than CA

# **FIRST SCHEDULE .. In brief (CONTD)**

## **a) Part I- 12 items-Professional misconduct-members in Practice... contd....**

### **8. Fails to communicate with outgoing auditor – Refer New FAQ by ICAI- clarifying certain aspects**

- Professional courtesy is not only sole reason
- Opportunity to know reason and safe guard own interest
- Reasons for non acceptance- non-payment of undisputed fees, non compliance of Sec 139 to 141 of Co. Act'
- Qualified Report

### **9. Non compliance of Sec 139 to 141 of Co Act, 2013**

- The incoming Auditor should ensure that appropriate procedure has been followed for his appointment(so that applicable law is complied and also, at a later stage no objection is raised by any one)
- The procedure may vary for first appointment, casual vacancy, joint audit,

# **FIRST SCHEDULE .. In brief (CONTD)**

## **a) Part I- 12 items-Professional misconduct-members in Practice... contd....**

10. Charging/offering to charge,Accept/ offers to accept- fees based on percentage/contingency (refer Regulation 192 for exceptions)
11. Engages in any other occupation (director simplicitor but he/partner not auditor; Regulation 190A (General or specific permission) and Regulation 191 may be referred for relaxations/conditions)
12. Allows non - Member/non-partner to sign documents on his/ firm's behalf. (except routine documents on which a professional opinion or authentication is not required)

# **FIRST SCHEDULE .. In brief (CONTD)**

## **b)Part II- 2 items - Professional misconduct-members in Service**

### **I. Shares his emoluments with others**

- Pays or allows
- Or agrees to pay
- Directly or indirectly

### **2.Accepts commission or gratification from a lawyer, CA, broker etc engaged by the employee.**

- accepts or
- Agrees to accept
- Read with clause (2) and (3) of Part I of First sch. As applicable to Practicing members.

## **FIRST SCHEDULE .. In brief (CONTD)**

### **c) Part III- 3 items – Professional misconduct -generally (all members)**

- I) Not being a FCA, acts falsely as FCA (whether in practice or not)
- 2) Does not supply information to the Institute and/or its other functionaries or comply requirements asked for,
  - Non supply of Information etc falls in First Schedule but supplying of false information etc triggers Second Schedule
- 3) Gives false information knowing it to be false, while inviting professional work from another CA, responding to tenders or enquiry, advertising through write up or anything as provided under Clause (6) and (7) of the First Schedule.

## **FIRST SCHEDULE .. In brief (CONTD)**

### **d. Part IV- 2 items - other misconduct -generally (all members)**

- I. Becomes guilty of any offence punishable with imprisonment upto 6 months, either in civil or criminal case
  - If held guilty
  - By an Civil or Criminal court
  - For offence which is punishable with imprisonment upto six month.
2. Bring **disrepute** to the profession/Institute as a result of his action.
  - The Council is empowered to opine on **any** action of its member
  - Such action may or **may not** relate to professional work
  - Director (Discipline) can inquire into the conduct of any member of ICAI under any other circumstances.

## **SECOND SCHEDULE .. In brief**

### **a. Part I- 10 items - Professional misconduct-members in Practice**

#### **I. Discloses information acquired **without Client's consent**.**

- Exceptions- as required by law; in performance of professional duty; with incoming auditor; provide information or allow extract from working paper to HO/Parent Co Auditor:

#### **2. Certifies/submits report **without examining** the related records**

- The underlying documents must have been examined either by himself, or his Partner, or his employee or by another practicing Chartered Accountant.

## **SECOND SCHEDULE .. In brief**

### **a. Part I- 10 items - Professional misconduct-members in Practice**

3. He or his firm permits to use its name for vouching the accuracy of **future contingent earnings**.

- The report on the Profit forecast or Financial forecast must be in accordance SAE 3400 with full disclosures
- In case of Prospectus, the applicable SEBI Regulations needs to be followed.
- It may be noted that not following the requirements of SAE/SAs in the report/certificates being issued and by just merely giving certain disclaimer or disclosure or caveat(s) like “we are giving the information and explanations herewith purely based on estimate basis and have no relation with the actual figures and to avail the bank loan.” is also NOT going to absolve the member from his responsibility as was observed by Calcutta High Court in the case of Binod Kumar Agarwala vs CIT.

## **SECOND SCHEDULE .. In brief**

### **a. Part I- 10 items - Professional misconduct-members in Practice**

3. (contd) The Hon'ble High Court in its judgement dated 21st June 2018 endorsed the view of ITAT that "A Chartered Accountant is governed by certain discipline and he has to conduct audit in accordance with the provisions and rules of the Chartered Accountants Act. Schedule II and part I holds a chartered accountant guilty of professional misconduct if he permits his name or name of his firm to be used in connection with the audit based on estimate." Hon'ble High Court construed the conduct of the Audit Firm seriously and directed the matter to be forwarded to the Institute of Chartered Accountants of India to take appropriate steps against the said Audit firm.

4. Opines on Financial Statement or issue Certificate where substantial interest involved.

- His; his firm; his Partner or their relatives not to have substantial interest.
- Appendix "H" to COE Vol II defines "substantial interest", "relative"

## SECOND SCHEDULE .. In brief (Contd)

### a. Part I- 10 items - Professional misconduct-members in Practice

5. Fails to disclose any **material** fact known to him in Financial Statements. (Financial Statement = Reports as well as Certificates)
  - the **undisclosed fact** must be **material** (materiality aspect-either Profit or significant for Balance sheet)and
  - **disclosure** of such fact is **necessary** in preparing the FS
6. Fails to report a known **material misstatement** appearing in Financial Statements.
  - The member need to point out in his Report, the material misstatement in the FS and he has knowledge of such misstatement.

## **SECOND SCHEDULE .. In brief (Contd)**

### **a. Part I- 10 items - Professional misconduct-members in Practice**

7. Performs professional duties without due diligence or is grossly negligent.
  - Diligence encompasses the responsibility to act in accordance with the requirements of an assignment carefully and thoroughly
  - 'negligence' covers a wide field and extends from the frontiers of fraud to collateral and minor negligence
  
8. Fails to obtain sufficient information for expressing an opinion.
  - The chartered accountant should not express an opinion before obtaining the required data and information
  - if the auditor has not seen any evidence of the existence and/or valuation of the investment which constitute the only asset of a Company, he should not say that:-  
“Subject to the verification of the existence and value of the investments the Balance Sheet shows a true and fair view....etc.”

## **SECOND SCHEDULE .. In brief (Contd)**

### **a. Part I- 10 items - Professional misconduct-members in Practice**

9. Fails to invite attention to any material departure from the generally accepted procedure of audit (GAAP) applicable to the circumstances
  - the audit should be performed in accordance with “generally accepted procedure of audit applicable to the circumstances” and if for any reason the auditor has not been able to perform the audit in accordance with such procedure, his report should draw attention to the material departures from such procedures
10. Keeps client's money without opening separate bank account.
  - a member may be entrusted with moneys belonging to his client (other than fees or remuneration or money meant to be expended). If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client within a reasonable time.

## **SECOND SCHEDULE (Contd)**

### **b. Part II- 5 items - Professional misconduct- generally (all members)**

#### **I. Contravenes any of the provisions of the Chartered Accountants Act/Regulations & Guidelines issued by the Council.(Brahmastra)**

- The Council is empowered to issue guidelines in exercise of the power conferred by clause (I) of this Part.
- It is an authority for the Council to issue guidelines for **extending** the scope of misconduct to cover acts or omissions **not already dealt** with in the various clauses of the two schedules

2. Being an employee, **discloses** employer's **confidential information** (acquired in course of employment) without permission or except as and when required by law or permitted by employer.

- The confidential information cannot be disclosed by member even after cessation of his employment.

## **SECOND SCHEDULE (Contd)**

### **b. Part II- 5 items - Professional misconduct- generally (all members)**

#### **3. Provides false information to the Institute and its different authorities.**

- the member should not furnish any particulars knowing them to be false in any information, statement, return or form to be submitted
- to the Institute or Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority

## **SECOND SCHEDULE (Contd)**

### **b. Part II- 5 items - Professional misconduct- generally (all members)**

4. Defalcates/embezzles money received in professional capacity.
5. acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.
  - This clause was newly inserted vide amendment dated 18<sup>th</sup> April, 2022.
  - Contravention of **any** of the provisions of Companies Act, 2013 by the member of ICAI may trigger this clause.

## **SECOND SCHEDULE .. In brief (CONTD)**

### **d. Part III- I item - other misconduct -generally (all members)**

- I. Becomes guilty of any offence punishable with imprisonment EXCEEDING 6 months, either in civil or criminal case
  - If held guilty
  - By an Civil or Criminal court
  - For offence which is punishable with imprisonment exceeding six month.
  - If the punishment with imprisonment is upto six month, it will trigger First Schedule.

# Thank You.

**CA Sameer Ladda**

Chairman, Pune Branch of WIRC of ICAI (2021-22)

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