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- ACCOUNTING AND TECHNOLOGY

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Introduction to Ind AS

1. INTRODUCTION TO IND AS

ASB (Accounting Standard Board) of ICAI established in 1977 is the standard setting arm of ICAI discharging the role of national standard setter. Exposure Draft by ASB → Public comments → Final Draft recommended to NFRA → then Government of India and MCA notifies AS for corporate entities and ICAI issues for non-corporate entities, is the brief process of issuing AS (and Ind AS) is India.

2. INDIAN SCENARIO PRIOR TO INTRODUCTION OF IND AS IN INDIA

Prior to introduction of Indian Accounting Standards (Ind AS) which are Accounting Standards duly **converged** with International Financial Reporting Standards (IFRS), ASB has issued various AS.

These AS are applicable to

(a) Companies other than those following Ind AS,

(b) SMCs and

(c) Non-corporate entities.

Companies not adopting Ind AS :

- **Companies (Ind AS) Rules, 2015 :** Companies not covered under roadmap of Ind AS have to follow AS as prescribed in Companies (Accounting Standard) Rules, 2006.

Applicability of Ind AS and AS : Companies (AS) Rules,2006

- AS 1 to 29 to be followed by all companies.
- Except SMC's to be exempted from certain AS.
- SMC Classification as per Companies (AS) Rules:

Bases	Non-SMC	SMC
Turnover (P.Y.), or	>250 Cr.	Remaining
Borrowings (Any time in P.Y.), or	>50 Cr.	
Nature of Entity, or	Bank, F.I. or Insurance company	
Listing, or	Listed or to be Listed	
Group	Holding or Subsidiary of above	

Exemption	SMC	Non-Corporate Entities : SME Classification*			
		L1	L2	L3	L4
Completely Exempt	17	-	3, 17, 20, 21, 23, 25, 27	3, 17, 18, 20, 21, 23, 24, 25, 27	3, 14, 17, 18, 20, 21, 23, 24, 25, 27, 28
Exempted from certain accounting & disclosure requirements	12, 25, 28	-	15	15	15, 22
Exempted from certain disclosure requirement	19, 20, 29	-	19, 28, 29	10, 11, 19, 28, 29	10, 11, 13, 19, 26, 29

*Small Medium Enterprieses classification is prescribed by ICAI where non-corporate entities are classified under 4 levels.

- **Ind AS, if applicable/adopted,** provides no such entity specific exemptions as given in AS hence all Ind AS are mandatory to be followed (if relevant), if entities following Ind AS
- Ind AS 1 prescribess Companies following Ind AS to:
  a) Follow all Ind AS (and no option to follow Ind AS selectively); and
  b) Make an "Explicit Unreserved Statement" that it is following Ind AS for preparing & presenting F.S.

3. LIMITATIONS OF ACCOUNTING STANDARDS

Few rising complexities were not explicitly and comprehensive dealt by AS:

a) Capital being raised in the form of **complex financial instruments** like optionally convertible/ compulsorily convertible shares / debentures etc.

b) Various **derivative instruments embedded** in the foreign currency bonds / equity instruments , commodity derivatives etc.

c) Group **restructuring,** business **acquisitions, mergers, demergers, slump sale** etc.

d) **Complex revenue arrangements** and business models with innovating emerging **digital economy**

e) Diverse **stock-based compensation** with innovative remuneration models for C-suite

f) **Complex tax provisions** and impact thereof in determination of current and deferred t ax

g) Different ways to provide shareholders' return and various modes of shareholder's investments in kind in the event of group **reorganisation.**

Further, a need was felt to have comprehensive **disclosures** in the financial statements.

4. EMERGENCE OF GLOBAL ACCOUNTING STANDARDS

- In 1973, International Accounting Standards Committee **(IASC)** was formed
- The main goal of the committee was to harmonize different financial reporting practices.
- International Accounting Standards Board **(IASB)** was formed on 1st July 2000.
- IASB members are responsible for the development and publication of International Financial Accounting Standards **(IFRS)**.
- International Organisation of Securities Commissions **(IOSCO)**, in May 2000 announced that it had completed its assessment of 30 accounting standards of the International Accounting Standards Committee (IASC 2000 standards) and recommended that its members permit incoming multinational issuers to use the 30 IASC 2000 standards to prepare their financial statements for cross-border offerings and listings, as supplemented by reconciliation, disclosure and interpretation
- On 19th July 2002, a regulation was passed and all **EU listed companies** were required to prepare their financial statements following **IFRS from 2005.** This has led to IFRS being considered as one of the major unified GAAP in the world.
- So with this, **two prominent and widely adopted accounting standards** have emerged:
  1) Accounting Standards set up by US Financial Accounting Standards Board (FASB) (widely known as **"US GAAP"**) and
  2) **IFRS**
     - The "Group of 20" (G20) is made up of the finance ministers and central bank governors of 19 countries and the European Union:
     - The G20 has for some time called for the global convergence of accounting standards and has supported the IASB-FASB convergence process.
- The joint convergence project was launched in 2002 by the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB).
- The scope of the overall **IASB-FASB convergence project** has evolved over time and is currently under progress.
- So, IFRS is now, together with US GAAP, one of the two globally recognised financial reporting frameworks. presently, **167 jurisdictions require the use of IFRS Accounting Standards** for all or most publicly listed companies, whilst a **further 12 jurisdictions permit its use.**

5. NEED FOR GLOBAL ACCOUNTING STANDARDS IN INDIA

- Modern economies rely on **cross-border transactions** and the free flow of international capital.
- Applying **local accounting standards led to a totally different basis** for amounts appearing in financial statements.
- **International investors** were apprehensive to rely on the financial information of Indian Companies due to their limited understanding of accounting framework in India
- Considering above, **India made a commitment** towards the convergence of Indian accounting standards with **IFRS at the G20 summit in 2009.**

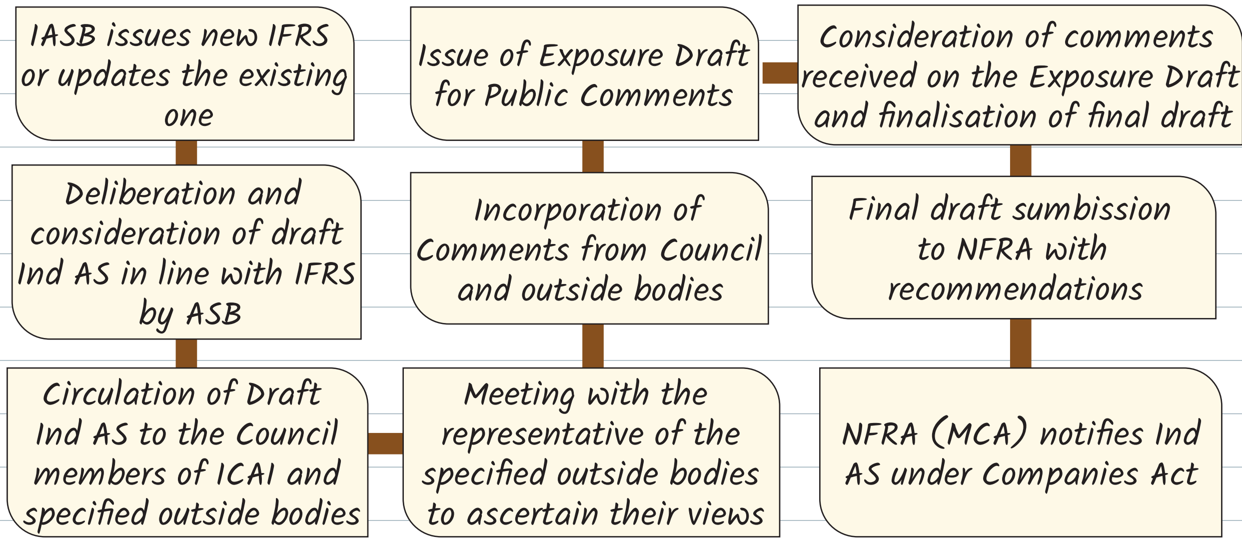
6. BENEFITS OF GLOBAL ACCOUNTING STANDARDS

1. Transparency, accountability and efficiency to financial markets around the world
2. Enhancing the international comparability and quality of financial information, enabling informed economic decisions.
3. Strengthen accountability by reducing the information gap between the providers of capital and the people to whom they have entrusted their money.
4. Vital important regulators around the world.
5. Contribute to economic efficiency by helping investors to identify opportunities and risks across the world, thus improving capital allocation
6. Single, trusted accounting language lowers the cost of capital and reduces international reporting costs.
7. Increased investment in jurisdictions adopting IFRS
8. Company which has operations in multiple countries, it became easy for them to consolidate their operations, track operational key performance indicators, and reduce the number of different reporting systems.

7. CONVERGENCE VS ADOPTION OF IFRS

Adoption of IFRS, means 100% compliant with the guidelines issued by IASB. Convergence "to move towards each other or meet at the same point from different directions", means the national accounting standards setter would work with IASB to develop high quality Accounting Standards over the time. **"Converged with IFRS" means adopted IFRS with some exceptions termed as Carve-Ins and Carve-Outs,** and work with IASB towards those exceptions to reach at a point wherein there are no differences left. An entity that applies IFRS as amended by a local authority cannot assert compliance with IFRS. Countries like Canada, Bahrain, Cambodia etc have adopted IFRS while countries like India, China, Hongkong etc have converged with IFRS.

8. PROCESS OF DEVELOPMENT AND FINALISATION OF INDIAN ACCOUNTING STANDARDS



9. TRANSITION FROM AS TO IND AS

MCA has notified the Companies (Indian Accounting Standards) Rules 2015 vide its G.S.R dated 16th February 2015. Notified 39 Ind AS and has laid down Ind AS transition roadmap for companies and non-banking finance companies excluding banking companies and insurance companies.

1 About Indian Accounting Standards

- Ind AS are the IFRS converged standards.
- Similar to IFRS they are **principles-based standards,** but substantially different from Indian GAAP.

2 How Ind AS have been numbered?

- Ind AS are numbered in a similar manner as compared to IFRS.
- **Numbers for IAS are retained.**
- For **IFRS, a new series starting after 100 was used.**
- IFRS Interpretations Committee (IFRIC) is the interpretative body of the IASB that issues.
- IFRS Interpretations, which are eventually approved by the IASB. Titled **'IFRIC'** and numbered as IFRIC 1,2 etc. Interpretations issued before 2003 were titled **'SIC'**
- IFRIC and SICs are included in Ind AS as part of Appendix in relevant Ind AS.
    - Total reporting standards issued under IFRS are 41. Total reporting standards issued under Ind AS are 39. IFRS 17 Insurance Contracts and IAS 26 Accounting and Reporting by Retirement Benefit Plans are yet not notified in India as Ind AS.
    - Total interpretations under IFRS (IFRIC + SIC) are 18. Total interpretation included under Ind AS (Appendix to relevant standards) are 17. IFRIC 2 – Members' Shares in Co-operative Entities and Similar Instruments and

SIC -7 Introduction of the Euro are neither included under Ind AS nor notified. However, Appendix C to Ind AS 103 – Business Combinations was developed and additionally included in India for which no corresponding IFRIC or SIC is available.

3 How Ind AS have been structured?

AS retained the paragraph numbers of IFRS and IAS

Ind AS have following components:

1) **Objective –** What is the main purpose for which the Ind AS is formed
2) **Scope –** It defines specifically what it intends not to cover.
3) **Definitions –** It includes definitions of various terms used in the standards.
4) **Content of the Standard –** It generally contains principle of recognition, measurement, subsequent measurement along with any other standard specific contents
5) **Disclosure –** qualitative / quantitative information required to be disclosed in financial statements pertaining to the matter covered in the standard. It also contains how a particular asset / liability / income / expense should be presented in financial statements.
6) **Transitional provisions and effective date –** Under Ind AS, transitional provisions are mentioned mainly at two places. Firstly, it is broadly mentioned in Ind AS 101 and secondly in the individual Ind AS wherever applicable. The transitional provisions mentioned in Ind AS 101 are applicable to first time adopter of Ind AS. The transitional provisions mentioned in individual standards are applicable to entities that have already applied Ind AS.
7) **Appendices –** Ind AS also has appendices which are integral part of the standard. They mainly consist of:
   a. Explanation on industry specific issues which require detailed guidance. For e.g.: Appendix to Ind AS 16 contains treatment of stripping costs in the production phase of a surface mine
   b. **Application Guidance –** These are mainly in standards which are converged from International Financial Reporting Standards (Ind AS 101 and onwards). It contains detailed guidance in applying the principles mentioned in the standard
   c. **Defined terms –** It mentions definition of terms mentioned in the standard
   d. **References to matters contained in other Ind AS -** It lists the appendix which is a part of another Indian Accounting Standard and makes reference to the particular standard.
   e. **Comparison with IFRS –** Differences with IFRS are explained in this section
   f. IFRIC and SIC applicable and relevant for the respective Ind AS

In each Ind AS the text in bold mentions the principle while the text in plain mentions its application guidance / other explanation. Paragraphs set in bold type and plain type, have equal authority.

10. Roadmap for Applicability of Ind AS: Companies (Ind AS) Rules, 2015 (RULE 4)

Companies (and its Holding, subsidiaries, JV or Associate Companies)

(1) Phase I : 01.04.2016 – Net Worth ≥ 500 Cr. (listed or unlisted)

(2) Phase II : 01.04.2017 – All Listed (Debt or Equity - listed or to be listed - In Stock Exchange in or outside India Except SME Exchange or ITP without IPO) and, Unlisted Company - Net Worth ≥ 250 cr.

Exceptions:

(1) Banking Companies – ~~01.04.2018~~ ~~01.04.2019~~ → Deferred till further notice

(2) Insurance Companies – ~~01.04.2018~~ ~~01.04.2020~~ → Deferred till further notice

(3) NBFCs – Phase I : 01.04.2018 – Net worth ≥ 500Cr. (Listed or Unlisted)

Phase II : 01.04.2019 – Listed and

- Unlisted having Net worth ≥ 250 Cr.

Other companies to continue to follow AS.

Q. **Is Voluntarily early adoption of Ind AS Possible ?**

Ans: Yes, but not before 01.04.2015

And for – Banks : ~~01.04.2019~~ : Not earlier of the earliest application date

- Insurance Companies : ~~01.04.2020~~ : Not earlier of the earliest application date

- NBFCs : Voluntary adoption is not permitted

Note : An entity covered under Ind AS as per above will make its H/S/JV/A also covered under Ind AS. This also applies to entity that voluntarily follows Ind- AS However in no case Banking/Insurance/NBFC will be covered under Ind- AS prior to the date When Ind AS have been mandated for them.

Q. Application of Ind AS to non-finance company whose parent is NBFC

Tata Capital ltd. (Stock Broker) not before 01.04.2018

↓ Parent of

Tata BPO (listed Co.) Ind AS applicability on 01.04.2016 as Net worth ≥ 500 cr.

↓

Tata BPO to prepare alternate FS as per ~~Ind AS~~ AS till 31.03.2018 to facilitate preparation of Consolidated F.S. by Tata Capital using same accounting policies as that of Parent

10.1.1 Key Matters on Transition

1) **Comparative Financial Information**

All companies applying Ind AS are required to present comparative information as per Ind AS for one year. To comply with this requirement, Ind AS will be applicable from the beginning of the previous period.

Example

A company adopted Ind AS from 1st April, 2024 for its accounting period 2024-2025. Hence it will be required to prepare its first Ind AS financial statements for financial year 2024-2025 with comparatives for financial year 2023-2024, and the date of transition to Ind AS will be considered as 1st April 2023.

2) **Ind AS applicability**

Companies to which (Ind AS) are applicable, shall prepare their first set of financial statements in accordance with the Ind AS effective at the end of its first Ind AS reporting period, i.e. 31 march 2025 in above example.

3) **Consistent Application of Ind AS**

Once a company starts following the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily on the basis of criteria specifie d, it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in the Rules does not subsequently apply to it.

4) **Ind AS Applicability for Indian Group Companies**

If Ind AS is applicable to a company due to threshold or listing or voluntary choice, it would also be applicable to its holding company,subsidiary company, associate company and joint venture.

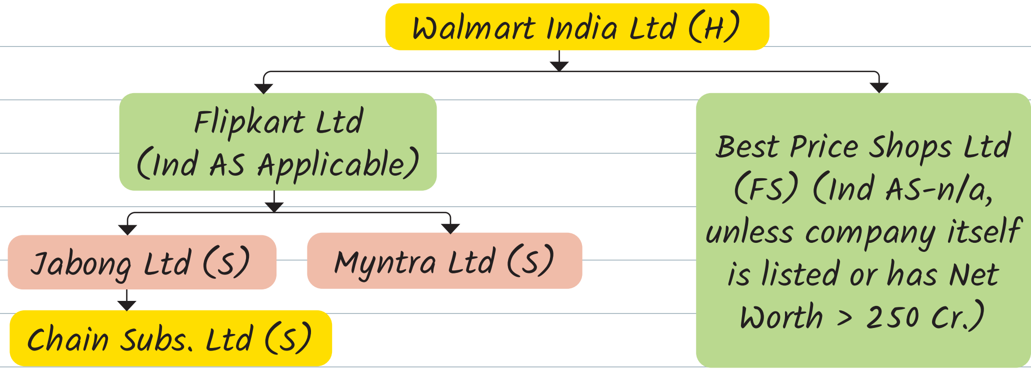
5) **Ind AS Applicability for Overseas Group Companies**

As per clause 5 of the Companies (Indian Accounting Standards) Rules, 2015 issued by MCA, overseas subsidiary, associate, joint venture and other similar entities of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction, provided that such Indian company shall prepare its consolidated financial statements in accordance with the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily as per the criteria as specified in the Rules.

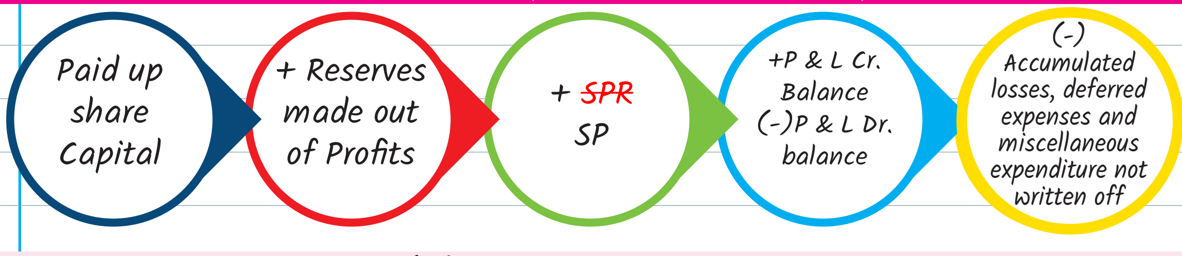
6) **Ind AS Applicability for Standalone and Consolidated Financial Statements**

As per clause 3 of the notification issued by MCA, Ind AS once required to be complied with in accordance with these rules, shall apply to both stand-alone financial statements and consolidated financial statements.

Q. Are fellow Subsidiaries also covered?



10.1.2 Net Worth (Section 2 (57) of Companies Act,2013) : (as per audited Balance Sheet)



- **Includes :** ESC,PSC,GR, P&L (cr), ESOS Reserves, Capital Grants forming part of net worth
- **Excludes:** Revaluation Reserve, Capital Reserve on Amalgamation, Write back of Depreciation

1. Net worth is to be checked on last day of preceding F.Y. as per its audited FS (but not before 31.03.14 / for NBFC – 31.03.16)

E.g.

a) A is an Unlisted Company

Net Worth: 31.03.14 = 550 Cr.
31.03.15 = 200 Cr.
31.03.16 = 150 Cr.

Is Ind AS Applies on A from 01.04.16?

Ans: Yes applicable from 01.04.16

b) What if in above case company was NBFC?

Ans: Ind AS not applicable on 01.04.18, as it is unlisted and NW < 250 crores on 31.3.2016.

2. What will be the treatment of profit on sale in the given situation and how much profit will be included in reserves?

Fixed Asset	₹ 100 Cr. (Crore)
Carrying Amount	₹ 40 Cr.
Sold for	₹ 110 Cr.
Profit on Sales	₹ 70 Cr.

Options:			
(a) P&L 70 Cr. (Hence Full 70 Added to Reserves)	(b) P&L 60 Cr. Cap. Res. 10 Cr.	(c) Cap. Res. 70 Cr.	(d) Any of these

Ans: (a)

3. Net Worth to be checked as per "AS" or "Ind AS" based F.S.?

Ans: Net Worth as per F.S. made as per "AS"

10.1.3 Listing:

(i) Listed or to be listed (i.e.Application filed for listing but listing is pending on Recognised stock exchange) → (ii) in India or Outside India → (iii) Debt or Equity (i.e. Debentures or Equity Shares)

Excludes: Companies listed on SME & ITP without Initial Public offer. (ITP-Institutional TradingPlatform now known as Innovator's Growth Platform)

Companies not to be considered as listed companies (Companies Amendments-2021) as per Rule 2A of Companies (Specification of Definition) Rules, 2014

(a) Public companies which have not listed their equity shares on a recognized stock exchange but have listed their –
   (i) non-convertible debt securities issued on private placement basis in terms of SEBI Regulations, 2008; or
   (ii) non-convertible redeemable preference shares issued on private placement basis in terms of SEBI Regulations, 2013; or

(b) Private companies which have listed their non-convertible debt securities on private placement basis on a recognized stock exchange in terms of SEBI Regulations, 2008;

(c) Public companies which have not listed their equity shares on a recognized stock exchange but whose equity shares are listed on a stock exchange in a jurisdiction as specified in section 23 (3) of the Act.

10.1.4 Holding/Subsidiary/JV/Associates (As per Companies Act, 2013)

Holding	Subsidiary	Joint Venture	Associates
Parent Company (Control over Subsidiary) (includes Body Corporate)	Controlled by a Parent + Company + Body Corporate	2 or More Companies Contractu-ally agree to share control	Companies > 20% Voting power (usually)

V.IMP: H/S/JV/A or Listing are to be checked during the year (i.e. First date of F.Y. until end of F.Y.), unlike Net worth that is to be checked on last day of preceeding F.Y.

Eg. 31.03.15 H had Subsidiary S, which was covered under Ind AS from 01.04.2017 thru Net worth Criteria. On 31.03.16, H Sold its Investment in S therefore H need not follow Ind AS as S is no more H's Subsidiary.

10.1.5 **Imp. Note:** Ind AS once applicable are applicable forever. (no EXIT from Ind AS)

10.1.6 **Date of Transition:** Beginning of P.Y. from when Ind AS adopted.(cannot be changed)

(Company has to restate comparatives as per Ind AS)

Particulars	31.03.18(C.Y.) as per Ind AS	31.03.17 (Restated as per Ind AS)	01.04.16 (P.Y.) also as per Ind AS
Liabilities: PSC	✓	✓	✓
Dividend Payable	X	X	X

10.2 NBFC's: As per:

RBI - Section 45 I(f)

- **Income >** 50% from Financial Nature Income, and **Assets >** 50% assets being Financial Assets
- Certain Category of Business have been excluded from NBFC like MFs, VCFs, Nidhi Co., Chit Fund Co., Stock Brokers etc by RBI

Companies (Ind AS) Rules, 2015

NBFC INCLUDES:
Core Investement Company, Companies that are Housing Finance companies, Marchant Banking Companies, Micro Finance, Mutual Benefit, Venture Capital Fund, Securitisation & Reconstruction, Mortgage Guarantee, Pension Funds, Asset Mgt Company, Stock Brokers or Sub-Brokers, Chit Fund and Nidhi Company
\+ NBFC as per RBI, Section 45-I (B) of RBI Act, 1934

10.3

(i) **Banking Company:** Banking Company as per Banking Regulation Act, 1949

(ii) **Insurance Company:** Insurance Company registered under Insurance Act, 1934

Presently cannot apply Ind AS but may prepare Ind AS compliant FS to faciliate consilidation, if required.

10.4 Mutual Funds

- SEBI (MF) (Amdnement) Regulation, 2022 require FS and accounts of MF Schemes to be prepared as per Ind AS.
- SEBI also issued circular prescribing format of FS of MF schemes as per Ind AS applicable from 1.4.2023

II. IND AS RELEVANT STATUTORY PROVISIONS

(1) Relevant Sections referring to Ind AS in the Companies Act, 2013 and Rules

- **Section 2(2)** states that accounting standards means the standards of accounting or any addendum thereto for companies or class of companies referred to in Section 133
- **Section 133** states the Central Government may prescribe the standards of accounting in consultation with and after examination of the recommendations made by the National Financial Reporting Authority. Companies (Indian Accounting Standards) Rules, 2015, have been notified.
- **Section 129** suggests the financial statements shall give a true and fair view and comply with the accounting standards notified under section 133
- **Section 134 (5) (a)**, a statement that the applicable accounting standards had been followed with proper explanation relating to material departures shall be given in the Director Responsibility statement to be issued under section 134 (3) (c)
- **Section 143**, auditor has to opine whether the financial statements comply with the accounting standards
- **Section 230** – Power to compromise or make arrangements with creditors and members Section 232 – Merger and amalgamation of Companies, the scheme of compromise or arrangement is to be sanctioned by the tribunal only after obtaining a certificate from the company's auditor that the accounting treatment given proposed in the scheme of compromise or arrangement is in conformity with the accounting standards mentioned in Section 133.
- **Section 66** – Reduction of Share Capital, which states for reduction of share capital to be sanctioned by the Tribunal accounting treatment, to be in conformity with the accounting standards specified in section 133 and a certificate to that effect by the company's auditor has been filed with the Tribunal.

(2) Relevant SEBI Rules and Regulations

(a) Formats for publishing financial results

SEBI via circular dated 30th November, 2015 amended the format for publishing quarterly financial statements. Comparatives filed along with such quarterly/annual financial results are also to be Ind AS compliant.

(b) Clarification regarding applicability of Indian Accounting Standards to disclosures in offer documents under SEBI (ICDR) Regulations, 2018

The applicability of Ind AS for financial information (last 3 years financials) to be disclosed in the offer document

Example

For a company filling offer document between 1st April 2021 to 31st March 2022, the financial statements of latest financial year, second latest financial year and third latest financial year shall be as per Ind AS.

(c) Revised Formats for financial results and implementation of Ind AS by Listed Entities

- For the period ending on or after 31st March, 2017, Unaudited / Audited quarterly financial results submitted by the Listed Entities, with the stock exchanges, shall be as per the formats for Balance Sheet and Statement of Profit and Loss (excluding notes and detailed sub - classification) as prescribed in Schedule III to the Companies Act, 2013.
- However, Banking Companies and Insurance Companies shall follow the formats as prescribed under the respective Acts / Regulations

12. FORMAT OF DIVISION II TO SCHEDULE III TO THE COMPANIES ACT - (Refer Chapter on Schedule III)

13. Carve In/Outs:

Are Ind AS 100% as per IFRS?

No, there are differences that can be categorised in 3 parts

1. Terminology Changes
2. Restriction of Options given in IFRS

} Differences not leading to carve- outs

3. Conceptually different from IFRS- CARVE-OUTs
4. Addons in Ins As - CARVE-INs

"If you want to live a happy life, tie it to a goal, not to people or things."
- Albert Einstein

PROFESSIONAL AND ETHICAL DUTY OF A CHARTERED ACCOUNTANT

1. What are ethics?
2. Ethical Principles in Financial Reporting (Derived from IESBA Code of Ethics)
3. What is professional or other misconduct for a CA?

Part 1 Complying with the Code, Fundamental Principles and Conceptual Framework

1 Complying With The Code

- A. CA has responsibility towards not just client but also toward public interest
- B. A Chartered Accountant shall comply with the Code
- C. Comply with L&R

2 The Fundamental Principles

- When in Conflict?
- Fundamental Principles
  - a. Integrity
  - b. Objectivity
  - c. Professional competence and due care
  - d. Confidentiality
  - e. Professional Behaviour

3 The Conceptual Framework

- Exercise of Professional Judgment
- Reasonable and Informed third party

Part 2 Chartered Accountants in Service

1 Conflicts of Interest

Three step approach to dealing with conflict of Interest

1. STEP	Conflict Identification
2. STEP	Threats created by Conflict of Interest
3. STEP	Disclosure and Consent

2 Preparation and presentation of information

A. Use of Discretion in Preparing or Presenting Information
B. Relying on the Work of Others
C. Addressing Information that is or Might be Misleading

3 Acting With Sufficient Expertise

4 Financial Interests, Compensation and Incentives Linked to financial reporting and decision making

5 Inducements, including gifts and hospitality → Immediate or Close Family Members

6 Responding to non-compliance with laws and regulations in case of employment with listed entities

1. Responsibilities of All Chartered Accountants
2. Responsibilities of Senior Chartered Accountants in Service

- A. Addressing the Matter
- B. Determining whether further action is needed
- C. Seeking Advice
- D. Determining Whether to Disclose the Matter to an Appropriate Authority
- E. Responsibilities of CAs Other than Senior CAs

7 Pressure to breach the fundamental principles → Pressure related to conflicts of interest

1 WHAT ARE ETHICS?

"Ethics are a set of moral principles:

A theory or system of moral values, the principles of conduct governing an individual or the discipline dealing with what is good and bad and with moral duty and obligation."

-Merriam-Webster Dictionary.

2 ETHICAL PRINCIPLES IN FINANCIAL REPORTING (Derived from IESBA Code of Ethics)

The Code of Ethics sets out

Fundamental principles of ethics for CAs, reflecting

(a) The recognition and responsibility of the profession **in public interest**, and

(b) establish the **standard of behavior expected of a CA.**

Conceptual framework to be applied by a CA in order to **identify, evaluate and address threats to compliance with the fundamental principles.**

3 WHAT IS PROFESSIONAL OR OTHER MISCONDUCT FOR A CA?

According to section 22 of the Act, the expression "professional or other misconduct" shall be deemed to include any act or omission provided in any of the Schedules (of the Act).

Professional Misconduct

- **A** Defined in Part I, II and III of the First Schedule; and Part I and II of the Second Schedule.
- **B** Members, whether in practice or service, must adhere to these provisions.
- **C** Violation leads to professional misconduct.

Other Misconduct

- **A** Outlined in Part IV of the First Schedule and Part III of the Second Schedule.
- **B** These rules give the Council the authority to investigate any misconduct by a member, even if it is unrelated to their professional work.
- **C** This is crucial because a CA is held to the highest standards of integrity not only in their professional life but also in their personal affairs.

For Clauses refer to Advanced Auditing, Assurance & Professional Ethics: Chapter-19

Part-I Complying With The Code, Fundamental Principles And Conceptual Framework

I COMPLYING WITH THE CODE

A CA has responsibility towards not just client but also toward public interest

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to **act in the public interest**.

B A Chartered Accountant shall comply with the Code

There might be circumstances where **laws or regulations preclude an accountant from complying** with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall **comply with all other parts of the Code**.

B Comply with L&R

Accountants need to be aware of differences in local regulations from the provisions as set out in the Code and comply with the more stringent provisions unless prohibited by law or regulation.

2 THE FUNDAMENTAL PRINCIPLES

There are five fundamental principles of ethics for Chartered Accountants:

(a) **Integrity:** to be **straight forward and honest** in all professional and business relationships.

(b) **Objectivity:** not to compromise professional or business judgments because of **bias, conflict of interest or undue influence** of others.

(c) **Professional Competence and Due Care:** to-

(i) attain and maintain **professional knowledge and skill** at the level required to ensure that a client or employing organization receives competent professional service, based on current **technical and professional standards and relevant legislation**; and

(ii) **act diligently** and in accordance with applicable technical and professional standards.

(d) **Confidentiality:** to respect the confidentiality of information acquired as a result of professional and business relationships.

(e) **Professional Behaviour:** to **comply with relevant laws and regulations** and avoid any conduct that the Chartered Accountant knows or should know might discredit the profession.

When in Conflict?

A Chartered Accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant **might consider consulting**, with:

- Others within the firm or employing organization.
- Those charged with governance.
- Institute
- Legal counsel.

However, **such consultation does not relieve the accountant** from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

Fundamental Principles

A Integrity

Integrity requires an accountant to be **straight forward and honest** in all professional and business relationships.

A Chartered Accountant shall **not knowingly be associated** with reports, returns, communications or other information where the accountant believes that the information:

- Contains a **materially false or misleading statement;**
- Contains statements or information provided **negligently**; or
- **Omits or obscures required information** where such omission or obscurity would be-misleading.

B Objectivity

Objectivity requires an accountant **not to compromise professional or business judgment** because of **bias, conflict of interest or undue influence** of others.

Example — Recorded sale of land

- X Ltd. is a listed company pays bonus to directors & KMP as a percentage of N.P. Company entered into sale of land with repurchase option at premium. Mr. A, CFO of the company who is a CA, recorded sale of land and booked profit over it despite this being a violation of Ind AS 115, because it is merely sale & purchase back transaction (treated as financing arrangement).

In this case CFO has compromised:-

Professional Competence	If Mr. A is not aware of Ind AS 115 treatment
Integrity	As he accounted transaction as a sale & not a loan, if his object was to improve profitability.
Objectivity	As he putted his own & directors interest before company & stakeholders, if his intention was to increase bonus.

C Professional competence and due care

- **Attain and maintain professional knowledge** and skill at the level required to ensure that **a client** or **employing organization receives competent professional**