

## Lecture No. 6 of professional ethics

### ① Second Schedule, Part I of CA Act, 1949:

- ✓ clause-1: Disclosure of Information
- ✓ clause-2: Certification without Examination
- ✓ clause-3: Permitting use of name in connection with Estimate of Earnings
- ✓ clause-4: Expressing opinion on F.S. of an Entity

#### clause-5: Failure to disclose a material fact:

A CA 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 the financial statements

↓  
but disclosure of which is necessary to make the F.S. not misleading.

↓  
when the member is associated with these F.S. in professional capacity.  
(Accountant / Auditor)

Note: Auditor's duties of disclosure of significant facts is towards stakeholders.  
It will not be sufficient to inform significant facts only to managing committee of the Entity.

#### Clause-6: Failure to report a material misstatement:

A CA in practice shall be deemed to be guilty of professional misconduct, if he fails to report a material misstatement, known to him,

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to appear in financial statements

↓  
with which he is associated in a professional capacity.

### Clause-7: Failure to Exercise due diligence:

A CA in practice shall be deemed to be guilty of professional misconduct if he:

- (a) does not exercise due diligence; or
- (b) is grossly negligent in performance of his duties (i.e. total ignorance)

### Clause 8: Failure to obtain Evidences to form an opinion:

A CA in practice shall be deemed to be guilty of professional misconduct, if he

- (a) fails to obtain sufficient information which is necessary for the expression of opinion; or

- (b) its exceptions are sufficiently material so as to negate the expression of opinion.

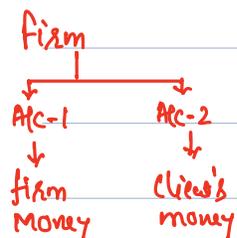
### Clause 9: Failure to invite attention to material departure from accepted auditing practices:

A CA in practice shall be deemed to be guilty of professional misconduct, if he fails to invite attention to material departure from generally accepted auditing practices/procedures.

### Clause 10: Failure to keep client's money in separate bank A/c:

A CA in practice shall be deemed to be guilty of professional misconduct, if he

- (a) fails to keep client's money in separate bank A/c; or
- (b) uses the client's money for purposes other than those specified by the client.



ICAI Recommendations: From book

⑧ Part II of Second Schedule (Professional Misconduct - Members Generally):

A member of ICAI, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he:

✓ Clause 1: Contravenes the provisions of this Act; OR (e.g. Sec. 2, 6, 8, 27)  
regulations made under this Act; OR (Reg. 47, 48)  
Guidelines issued by the Council. (Council General Guidelines)

✓ Clause 2: A member of the Institute, being an employee, shall be deemed to be guilty of professional misconduct, if he discloses the confidential information of employer unless permitted by employer or required by law.

✓ Clause 3: A member of Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he provides false information to ICAI, its Council, Committee, Director Discipline, Board of Discipline, Disciplinary Committee, Appellate Authority or QRB.

Clause - 4: A member whether in practice or not, shall be deemed to be guilty of professional misconduct, if he

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defalcates OR embezzles the money received in professional capacity.

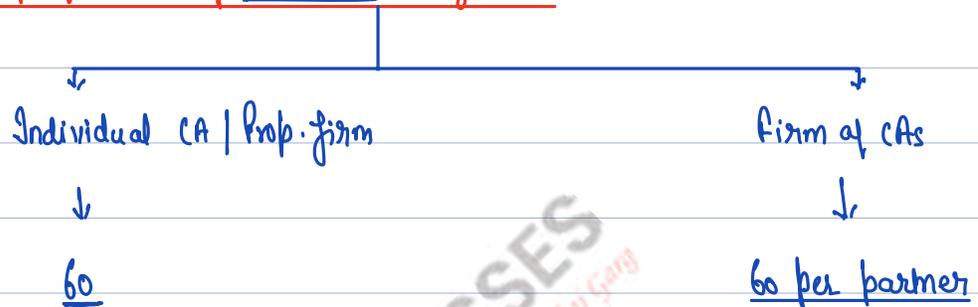
## ⑨ Council General Guidelines, 2008:

Chapter I : Applicable to all members.

Chapter II : A member of Institute, who is an employee, shall exercise due diligence and shall not be grossly negligent.

Imp: Chapter - V : A member in practice or firm of CAs, shall maintain and keep proper books of accounts, including (a) CASH BOOK and (b) Ledger, in respect of professional practice.

Chapter - VI : Specified no. of tax audit assignments:



Note: Audit conducted u/s 44AD, 44ADA and 44AE - not considered

Audit of H.O. +  $\geq 1$  branch = 1 Audit

Audit of  $\geq 1$  Branch (es) only = 1 Audit

In case of a firm of CAs, tax audit reports can be signed by any partner on behalf of the firm.

e.g. If there are 10 partners in a firm and firm is having 600 tax audits, a single partner can sign any no. out of 600 on behalf of firm.

Chapter - VII : Appointment of auditor in case of non-payment of audit fees (undisputed) of predecessor auditor is not allowed except in case of sick units.

Sick Units: Units regd.  $\geq 5$  years and

Accumulated losses at end of FY  $\geq$  NW

Example:

Mr. Y appointed as Auditor in place of X

① No prior communication  
by Y before accepting audit

Prior communication by Y before  
accepting audit

X Response

Non payment of  
Undisputed audit fees

Non-compliance of  
Sec. 139 and 140

Non payment of  
disputed audit fees.

Sick Unit

Not a  
Sick unit

② Mr. Y accept  
audit

③ Mr. Y accept  
audit

Mr. Y accept  
audit

Mr. Y accept  
audit

Professional  
Misconduct

No  
Misconduct

Professional  
Misconduct

Professional  
Misconduct

No  
Misconduct

↓  
Clause 8, Part I  
of First Schedule

↓  
Clause 1, Part II  
of 2nd Schedule

↓  
Clause 9, Part I  
of first Schedule