

Audit & Review Engagements - Independence Standards (Part 4- A)
& Other related provisions from Auditing Standards Rotations,
Resignations, Call Back of Reports etc.

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NEW CODE OF ETHICS

New Code of Ethics 2019

- Code of Ethics, 2019 or **Volume - I** (available on www.icaai.org) - revised counterpart of Part-A - based on IESBA Code of Ethics, 2018. Effective w.e.f 1.7.2020.
- Code of Ethics **Volume –II** - revised counterpart of Part-B –Effective w.e.f 1.7.2020.
- Updated relevant Disciplinary Case laws being issued as Code of Ethics **Volume-III**
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Earlier Code

- Code of Ethics, 2009 has parts – “A” & “B”. Remained valid till 30.6.2020.
- “Part-A” based on provisions of IESBA Code as suitably incorporated. “Part-B” based on domestic provisions governing members.



FIVE MOST IMPORTANT SUBSTANTIVE CHANGES

2009 Code	Revised - 2019 Code
No such provision	Responding to Non-Compliance of Laws and Regulations (NOCLAR) Deferred
No prohibition on Taxation services to Audit clients	Restrictions on Taxation services to Audit clients Deferred
No such provision	Prohibition on Management Responsibilities to the audit clients
Recommendatory 40% restriction on Fees from an audit client	15 % restriction on Fees from single client – only if its is consecutively for 2 years – and duty only to communicate TCWG Deferred
No such provision	Duty of Accountant in case of breach of <i>Independence Standards</i>

FIVE MOST IMPORTANT STRUCTURAL CHANGES

2009 Code	Revised - 2019 Code
Independence for Assurance Engagements	Independence requirements for Audit and Review Engagements and other Assurance engagements differentiated
No characterization as Standards	Independence sections re-characterized as <i>“International Independence Standards”</i>
Use of “Should”	Change in the drafting conventions e.g. “should” to “shall”
No such restructuring of Sections	New pattern of structuring of sections – Requirements distinguished
Lack of clarity for each entity	Increased clarity of responsibility for compliance - Firms, network firms, individuals within firms



CODE OF ETHICS 2019

- In revised Code, each section is structured, where appropriate, as follows:-
 - **Introduction** – sets out the subject matter addressed and introduces the requirements and application material in the context of the conceptual framework.
 - **Requirements** - Designated by the Letter “**R**” – Includes the word “shall” which imposes an obligation on PA to comply. The requirements contain general and specific obligations w.r.t the subject matter addressed
 - **Application material** – Designated by the letter “**A**” - Provides context, explanations , suggestions for actions , or matters to consider, illustrations and other guidance to assist in complying with the requirements

PROFESSIONAL ACCOUNTANT (HEREINAFTER REFERRED TO AS “PA” IN THE PRESENTATION)

- IESBA Code of Ethics uses the term “Professional Accountant”
- Same term was adopted in 2009 edition of the Code , also continued in 2019 (Volume-I) of the Code of Ethics
- Defined in the Code of Ethics as “*An individual who is a member of the Institute of Chartered Accountants of India.*”
- IESBA Code of Ethics uses the term “professional accountants in business” implying members who are employees. Modified to “professional accountant in service” in our Code in line with usage in Chartered Accountants Act, 1949



OVERVIEW OF THE STRUCTURE OF CODE OF ETHICS I.E 2009

- **Part-A**

- **[Based on IFAC/IESBA Code of Ethics, 2005 edition]**

- Chapter 1 – General application of the Code
- Chapter 2 - Professional Accountants in public practice
- Chapter 3 – Professional Accountants in service

Part –B

[Based on domestic Indian provisions]

Chapter 4 – Accounting and Auditing standards

Chapter 5 – The Chartered Accountants Act, 1949

Chapter 6 – Council Guidelines

Chapter 7 – Self Regulatory Measures Recommended by the Council

Appendices A – F



OVERVIEW OF THE STRUCTURE OF CODE OF ETHICS 2019 (VOLUME I)

Part 1 (Applicable to all Professional Accountants)

Complying with the Code, Fundamental Principles and Conceptual Framework

Part 2

Professional Accountants in Business

Part 3

Professional Accountants in Public Practice

International Independence Standards (Parts 4A & 4B)

Part 4A—Independence for Audits & Reviews
(Sections 400 to 899)

Part 4B—Independence for Other Assurance Engagements
(Sections 900 to 999)

Glossary (All Professional Accountants)



COMPLIANCE

- Part-A of ICAI Code of Ethics, 2009 (based on 2005 IESBA Code) was issued as a Guideline of the Council.
- Code of Ethics, 2019 (Volume – I) also issued as a Guideline of the Council. Further, there is change in drafting from “should” to “shall”, and requirements are clearly demarcated
- As a result, the non-compliance of provisions of the Code will be deemed as violation of Clause (1) of Part-II of Second Schedule of the Chartered Accountants Act, 1949:-

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he –

(1) contravenes any of the provisions of this Act or the regulations made there under or any guidelines issued by the Council



INDEPENDENCE STANDARDS

- 2009 Code has Section 290 i.e. ***“Independence – Assurance Engagements”***
- 2019 Code (Volume – I) based on 2018 IESBA Code has Independence Standards as under :-
 - ***Part 4A : Independence for Audit and Review Engagements***
 - ***Part 4B : Independence for Assurance Engagements other than Audit and Review***
- Characterized as “International Independence Standards”, as against “Section” earlier.
- Most bulky change as a number of similar provisions/compliances are common to both Parts 4A and 4B but given separately in the Code under both parts



FEATURE - BREACHES OF THE CODE (SECTION 400.80 - 400.89) – NEW PROVISION

- Mechanism of self-correction prescribed in the Code in case the PA on his own discovers an unintentional violation
- Mentions steps to be taken in case of breach of *Independence Standards i.e.* Parts 4A and 4B. A PA who identifies a breach shall evaluate significance of breach and its impact on PA's ability to comply with the fundamental principles.
- If a firm concludes that a breach of a requirement in this Part has occurred, it shall take prescribed steps therein e.g.:
 - End, suspend or eliminate the interest that created breach
 - Consider applicable legal or regulatory requirements and apply them



PERIOD DURING WHICH INDEPENDENCE REQUIRED

- Independence shall be maintained during both
 - The Engagement period; and
 - The period covered by the financial statements
- Safeguards, subject to the provisions of the Companies Act, 2013
 - Using professionals who are not audit team members
 - Having appropriate reviewer to review the audit and the non-audit services
 - Engaging another firm to re-perform the services



FEES – RELATIVE SIZE (R 410.4)

- Where for two consecutive years, total gross annual professional fees from the audit client and its related entities represent more than 15% of the total fees received by the firm, **the firm shall disclose to Those charged with Governance (TCWG)**
- Have a quality control review before issuing the third year's financial statements;
- After the third year's financial statements are issued, have the second year's financial statements reviewed.
- No such ceiling on total fees of the Firm would be applicable where such fees does not exceed Rs. 5 lakhs
- Not applicable for audit of government Companies, public undertakings, nationalized banks, public financial institutions or where appointments of auditors are made by the Government

[Restriction on more than 40% Fees from a single client in Self Regulatory Measures contained in Part-B of Code of Ethics, 2009 repealed]

FEES – OVERDUE

- Self interest threat created if fees is outstanding even at the time of the issue of the next year's audit opinion
- To consider if overdue fees is equivalent to loan
- To have an appropriate review mechanism built in



CONTINGENT FEES (SECTIONS 330, 410.9, 905.6)

- Code of Ethics, 2009 (Paragraph 290.197) - fees based on percentage of profits or contingent upon the findings, or results of such work not allowed (as per Clause 10 of Part-I of First Schedule to CA Act) except as permitted under Regulation 192
- Code of Ethics, 2019 (Volume – I) mentions general description of Contingent fees and the general prohibition



REGULATION 192 : RESTRICTION ON FEES

- No Chartered Accountant in practice shall charge or offer to charge, accept or offer to accept, in respect of any professional work, fees which are based on percentage of profits, or which are contingent upon the findings, or results of such work:

Provided that :-

- a. in the case of a receiver or a liquidator, the fees may be based on the percentage of the realization or disbursement of assets;
- b. in the case of an auditor of a cooperative society, the fees may be based on the percentage of the paid-up capital or the working capital or the gross or net income or profits;
- c. in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on percentage of the value of the property valued;



REGULATION 192 : RESTRICTION ON FEES

- d. in the case of certain management consultancy services as may be decided by resolution of the Council from time to time, the fees may be based on percentage basis which may be contingent upon the findings, or results of such work;
- e. in the case of certain fund raising services, the fees may be based on the percentage of the fund raised;
- f. in the case of debt recovery services, the fees may be based on a percentage of debt recovered;
- g. in the case of services related to cost optimization, the fees may be based on a percentage of the benefit derived; and
- h. any other service or audit as may be decided by Council.



KEY AUDIT PARTNER

- Not mentioned in ICAI Code of Ethics, 2009
- Used in 2019 Code (Volume-I) . Defined as under:-
 - *“The Engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.”*



FIRM ROTATION (SECTION 550)

- 2009 edition of Code of Ethics contains requirements relating to partner rotation. (No Firm rotation requirements exist in this code)
- Companies Act, 2013 has stipulated Firm rotation
- Under the revised code, partner rotation will co-exist along with Audit Firm rotation (wherever prescribed by a statute)
- 2019 Code incorporates Firm rotation requirements vide a separate section (550) to make the guidance comprehensive for members



CHANGES IN PARTNER ROTATION (SECTION R 540.5 – R 540.23)

Applicable in case of Public Interest Entities

2009	2019 (Volume-I)
7-year time-on	No change
2-years cooling-off	5-years cooling-off: EP 3-years cooling-off: EQCR 2-years cooling-off: all other KAPs



PARTNER ROTATION (SECTION 540)

New incorporations in 2019 Code

- Under Companies Act, 2013, partner rotation is done on behest of Company only.
- In case of Companies, where members of Company prescribe a shorter time on period , such shorter period shall prevail
- Similarly, partner rotation requirements prescribed by certain regulators such as RBI, certain NBFCs, etc. shall prevail



RESTRICTIONS ON ACTIVITIES DURING COOLING-OFF (W.R.T PARTNER ROTATION – SECTION 540)

New Introductions in the 2019 Code

- Prohibition on consulting with engagement team regarding technical or industry-specific issues, transactions or events
- Prohibition on leading or coordinating the professional services provided by the firm to the audit client, or overseeing the relationship of the firm with the audit client
- Prohibition on undertaking any other role or activity that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.



SERVICES PROHIBITED UNDER SECTION 144 OF COMPANIES ACT, 2013

- Accounting and Book keeping services;
- Internal Audit;
- Design and implementation of any financial information system;
- Actuarial Services;
- Investment Advisory Services;
- Investment Banking Services;
- Rendering of outsourced financial services;
- **Management Services; and**
- Any other kind of services as may be prescribed



MANAGEMENT RESPONSABILITÉS (SECTIONS 607 – 608)

- **The firm shall not assume a management responsibility for an audit client.**
 - Controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. Providing administrative services to an audit client does not usually create a threat. Examples of administrative services include:-
 - *Word processing services.*
 - *Preparing administrative or statutory forms for client approval.*
 - *Submitting such forms as instructed by the client.*
 - *Monitoring statutory filing dates, and advising an audit client of those dates.*



TAXATION SERVICES TO THE AUDIT CLIENTS..... SECTION 604

- Tax return preparation
- Tax calculations for the purpose of preparing the accounting entries
- Tax planning and other tax advisory services
- Tax services involving valuations
- Assistance in resolution of tax disputes



INFORMATION TECHNOLOGY SERVICES

- Not permitted in case of public interest entity where services involve designing or implementing IT Systems that:-
 - Form significant part of the internal controls over financial reporting; or
 - Generates information that is significant to the client's accounting records or financial statements on which the audit opinion is expressed



RECRUITMENT SERVICES

- Not permitted :-
 - Searching for or seeking out candidates; or
 - Undertaking reference checks of prospective candidates wrt following positions:-
 - Director or officer of the entity; or
 - A member of the senior management team



CORPORATE FINANCIAL SERVICES

- Not permitted :-
 - Promoting, dealing in or underwriting the audit client's shares
 - Any such service where the effectiveness of such advise depends on a particular accounting treatment or presentation in the financial statements on which the audit opinion is to be issued.



CORPORATE FINANCIAL SERVICES

- Services which may create threat and which can be rendered with adequate safeguards:-
 - Assisting in developing corporate strategies;
 - Identifying possible targets for the audit clients;
 - Advising on disposal transactions;
 - Assisting in finance raising transactions;
 - Providing structuring advise;



INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY (SECTIONS 250 AND 340)

Code of Ethics, 2009

- Offer of gifts/hospitality ordinarily gives rise to threats to fundamental principles
- Significance of such threats depend on the nature, value and intent behind the offer.
- Reasonable and Informed Third Party Test – If its within normal course of business without the specific intent to influence decision making or to obtain information, may conclude that it is acceptable
- If threats other than significant, must take safeguards
- Total prohibition in case of Assurance clients (except if inconsequential)

Code of Ethics, 2019 (Volume –I)

- Inducements elaborated
- To first see whether prohibited by Laws and Regulations
- Offering also prohibited
- Reasonable and Informed Third Party Test – To see whether it is with the intent to improperly influence the behaviour of the recipient or of another individual.
- Clarifications about appropriate boundaries for offering and accepting of inducements
- Extended to PAs in service also
- Total prohibition in case of Audit/Assurance clients to continue



APPLICABILITY OF PROVISIONS FOR MEMBERS IN SERVICE TO MEMBERS IN PRACTICE (SECTIONS R 120.4, 200.4, R 300.5)

- No corresponding provisions in Code of Ethics, 2009
- Revised 2019 Code contains clear guidance for PAs in practice that relevant provisions with regard to PAs in service in Part 2 are applicable to them when they perform professional activities pursuant to their relationship with the firm whether as contractors, employees or owners of the firm
- Illustrations of situations in which provisions in Part 2 apply to PAs in practice. Would apply for example to an employee of a Firm , who is holding certificate of practice



CRITERIA OF INDEBTEDNESS (SECTION 511.3 A1)

- No concept of **materiality of Loans** and Guarantee in the IESBA Code of Ethics, 2005 and in ICAI Code of Ethics, 2009
- The IESBA Code of Ethics, 2018 introduces the concept of materiality of Loans and Guarantees. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.
- Concept adopted in Code of Ethics, 2019 (Volume – I)



MCS - INSURANCE FINANCIAL ADVISORY SERVICES

2009

- (xxvi) Insurance Financial Advisory Services under the Insurance Regulatory & Development Authority Act, 1999 , including Insurance Brokerage.

New

- (xxvi) Insurance Financial Advisory Services under the Insurance Regulatory & Development Authority Act, 1999 including Insurance Brokerage **(Not including Insurance Agency)**



MCS - VALUATION

2009

(xv) Valuation of shares and business and advice regarding amalgamation, merger and acquisition.

New

(xv) Valuation of shares and business and advice regarding amalgamation, merger and acquisition. Acting as Registered valuer under the Companies Act, 2013 read with The Companies (Registered Valuers and Valuation) Rules, 2017.



COMMENTARY UNDER CLAUSES (3) AND (4) – PART - I, FIRST SCHEDULE

Referral fees amongst members

Existing - Silent

New - Permitted under commentary to Clause (3)

MDPs

Despite Regulations 53 A(3) and 53B, MDPs not allowed till Regulators of other professions also allow , and ICAI issues modalities

No equivalent of Director Simplicitor in partnerships

A member in practice cannot become a partner/ designated partner (non-working and non-remuneration drawing) in an LLP not carrying out professional work.



RESIGNATION OF AUDITORS

- SEBI circular dated 18th October 2019
 - (i) If the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter.
 - (ii) If the auditor resigns after 45 days from the end of a quarter of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for such quarter as well as the next quarter.
 - (iii) Notwithstanding the above, if the auditor has signed the limited review/ audit report for the first three quarters of a financial year, then the auditor shall, before such resignation, issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such financial year.

Format of information to be obtained from the statutory auditor upon resignation

Name of the listed entity/ material subsidiary:

Details of the statutory auditor:

a. Name:

b. Address:

c. Phone number:

d. Email:

3. Details of association with the listed entity/ material subsidiary:

Date on which the statutory auditor was appointed:

Date on which the term of the statutory auditor was scheduled to expire:

Prior to resignation, the latest audit report/limited review report submitted by the auditor and date of its submission.

4. Detailed reasons for resignation:

5. In case of any concerns, efforts made by the auditor prior to resignation (including approaching the Audit Committee/Board of Directors along with the date of communication made to the Audit Committee/Board of Directors)

6. In case the information requested by the auditor was not provided, then following shall be disclosed:

Whether the inability to obtain sufficient appropriate audit evidence was due to a management-imposed limitation or circumstances beyond the control of the management.

Whether the lack of information would have significant impact on the financial statements/results.

Whether the auditor has performed alternative procedures to obtain appropriate evidence for the purposes of audit/limited review as laid down in SA 705 (Revised)

Whether the lack of information was prevalent in the previous reported financial statements/results. If yes, on what basis the previous audit/limited review reports were issued.

7. Any other facts relevant to the resignation:

Declaration

I/ We hereby confirm that the information given in this letter and its attachments is correct and complete.

I/ We hereby confirm that there is no other material reason other than those provided above for my resignation/ resignation of my firm. Signature of the authorized signatory

Date:

Place:

Encl:

THANK YOU