



PRACTICAL ISSUES ON ETHICS DURING
BANK ASSIGNMENTS

WESTERN INDIA REGIONAL COUNCIL
OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF INDIA
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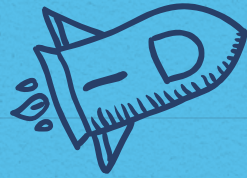
"THE COMPLEXITY AND DYNAMISIM IN GLOBAL BUSINESS ENVIRONMENT REQUIRES CHARTERED ACCOUNTANTS NOT ONLY EMPOWERED WITH DIFFERENT SKILLS AND EXPERTISE BUT ALSO TO COMPLY WITH ETHICAL REQUIREMENTS.COMPLIANCE WITH THE ETHICAL STANDARD NOT ONLY ENHANCE QUALITY, TRANSPARENCY, ACCOUNTABILITY IN THEIR SERVICES BUT ALSO CONTRIBUTES IN BUILDING STAKEHOLDERS' TRUST."

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LET US START





CURRENT ECONOMIC DYNAMICS

Bank credit to the services sector continued to witness a strong momentum, registering a growth of 7.3 per cent on YoY basis and 2.0 per cent on MoM basis in January 2022. Further, the marked improvement in credit to Non-Bank Financial Companies (accounting for one-third of Services credit) continues to persist in January as well, with a double-digit YoY growth (10.7 per cent) for second consecutive month. Other service sector such as transport operators and tourism, hotels and restaurants also showed significant improvement in credit growth.

(SOURCE: MONTHLY ECONOMY REPORT BY GOVT OF INDIA)

BANKING INDUSTRY TODAY

At a Glance

BANKING INDUSTRY IN INDIA TODAY AT A GLANCE

ADVANTAGE INDIA

- ❑ ROBUST DEMAND.
- ❑ INNOVATION IN SERVICES.
- ❑ BUSINESS FUNDAMENTALS.
- ❑ POLICY SUPPORT.
- ❑ REDUCTION IN NPA.

MY INDIA

- ❑ 75 DIGITAL BANKING UNIT.
- ❑ CENTRAL BANK DRIVEN DIGITAL CURRENCY.
- ❑ RBI LAUNCHES UPI FOR 400MN FUTURE PHONES.
- ❑ WOMAN BORROWER INCREASED AT CAGR OF 19%.
- ❑ BANK CREDIT UP BY 7.86% , DEPOSIT BY 9.11%.

AUDIT IN BANKING

Different Types

DIFFERENT TYPES OF BANK AUDIT

INTERNAL AUDIT

USUALLY UNDERTAKE BY IN HOUSE INTERNAL AUDIT TEAM. THEY INDEPENDENTLY REPORT TO CHAIRMAN OF THE AUDIT COMMITTEE OF THE BANK.

EXTERNAL AUDIT

UNDERTAKEN BY INDEPENDENT CONSULTANTS (Eg. CHARTERED ACCOUNTANTS, COMPANY SECRETARIES) .

REGULATORY AUDIT

UNDERTAKEN BY REGULATOR (Eg. RBI, SEBI, NSDL/CDSL).



RISK IN BANKING

Which Risk are significant ??????

SIGNIFICANT RISK IMPACTING BANK

- CREDIT RISK.
- MARKET RISK.
- OPERATIONAL RISK.
- LIQUIDITY RISK.
- CONCENTRATION RISK.
- INTEREST RATE RISK.
- COMPLIANCE RISK.



SIGNIFICANT RISK IMPACTING BANK

- RISK OF SECURITIZATION.
- STRATEGIC RISK.
- BUSINESS RISK.
- REPUTATION RISK.
- PENSION OBLIGATION RISK.
- OTHER RISK.



STEPS OF MANAGING RISK

- IDENTIFY THE RISK.
- ANALYZE THE RISK.
- EVALUATE THE RANK OF THE RISK.
- TREAT THE RISK.
- MONITOR AND REVIEW OF RISK.



WHY AUDITORS ARE SO IMPORTANT? WHAT ARE THE ROLE OF
AUDITOR ?DO YOU LOVE TO LEARN THAT ?

LOVE TO
LEARN

ROLES OF AUDITORS

- ❑ Roles of Auditor is to provide independent assurance that an organizational risk management, governance and internal control process are working and operating effectively.
- ❑ Audit is an independent examination of Financial information of any entity whether profit oriented or not and irrespective of size or legal form, whether such examination conducted with an view to expressing an opinion there on. The person conducting this task should ensure that financial statement would not mislead any one.

ROLES OF AUDITOR

- ❑ Independent Assurance to BOD/ACB.
- ❑ Adequate coverage of matter of Regulatory Interest.
- ❑ Independent assess effectiveness and efficiency of internal control, risk assessment, governance system, process created by business unit and support function and provide assurance on these systems and processes.



GENERAL SCOPE OF STATUTORY AUDITOR OF A BANK

- ❑ **Audit of Financial Statements and Comment upon True & Fair View of State of Affairs.**
- ❑ **Long Form Audit Report.**
- ❑ **Certification.**
- ❑ **Internal Financial Control.**



GENERAL SCOPE OF CONCURRENT AUDITOR OF A BANK

- ❑ The main role of concurrent audit is to supplement the efforts of the bank in carrying out simultaneous internal check of the transactions and other verifications and compliance with procedures .
- ❑ All relevant internal guidelines/circulars/important references as well as relevant circulars issued by RBI / SEBI and other regulatory bodies should be referred by the concurrent auditors on ongoing basis.



GENERAL SCOPE OF CONCURRENT AUDITOR OF A BANK

The scope of concurrent audit should be wide enough to cover certain fraud-prone areas, handling of cash, deposits, advances, safe contents of securities, investments, verification of end use of funds, monitoring of projects, non fund based business, verification of Merchant Banking Business, conduct of employees, mis-selling of products, KYC / PMLA compliance, overdue bills, exercise of discretionary powers, sundry, and suspense accounts, inter branch reconciliation, clearing difference, treasury functions, Debit / credit card business, DP business, settlement of ATM Claims, Housekeeping, review of old outstanding entries for reconciliation, examination of multiple credits to single accounts, recovery in compromise cases in accordance with the compromise agreement, value dated entries passed in both deposit and advance accounts.

Scope Other Audits like Stock Audit , Revenue Audit, Forensic Audit , Snap Audit, Special Audit are depends on Client Organizational Structure , Regulatory Guidelines, Role of Internal Auditor , Risk faced by Bank, Internal Control , Vulnerability & Threats etc.

WHAT ARE FUNDAMENTAL PRINCIPALS OF AUDIT





COMPLIANCE & SIGNIFICANCE

Standard of Auditing
Guidance Note
Accounting Standard
RBI Circulars

For an effective audit we need :

- ❑ Compliance with Standard of Auditing**
- ❑ Compliance with Guidance Notes.**
- ❑ Compliance with Accounting Standard.**
- ❑ Compliance with Regulators.**



SIGNIFICANCE

- ❑ An Auditing Standard is a form of the current best practice applicable in audit engagements by approved auditors which sets a minimum level of technical proficiency to assure work done is of high quality auditing and at the same time providing high level of assurance.
- ❑ Accounting Standard are issued to establish uniform standards for preparation of financial statements, in accordance with the Indian GAAP (Generally Accepted Accounting Principals).

SIGNIFICANCE

- ❑ Guidance Notes provide detail guidance about various aspect auditing.
- ❑ The RBI acts as a regulator and supervisor of the overall financial system. The Reserve Bank of India performs the supervisory function under the guidance of the Board for Financial Supervision (BFS). The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising Scheduled Commercial and Co-operative Banks, All India Financial Institutions, Local Area Banks, Small Finance Banks, Payments Banks, Credit Information Companies, Non-Banking Finance Companies and Primary Dealers. This supervision done through various RBI circulars, notifications, directions.

SIGNIFICANCE

- ❑ Compliance with accounting standards has been made mandatory. Sub-section (3A) to Section 211 (inserted by the Companies Amendment Act, 1999) requires that every profit and loss account and balance sheet shall comply with the accounting standards.
- ❑ Auditing Standard are mandatorily followed as per direction issued by council of ICAI.

SIGNIFICANCE

- ❑ **Section 149(3) of the Companies Act 2013 requires every Auditor to comply with Auditing Standard.**
- ❑ **Reserve Bank of India has been empowered under Banking Regulation Act, 1949 to conduct the inspection of banks and regulate them in the interest of banking system, banking policy and depositors/public.**

SIGNIFICANCE

- ❑ Reserve Bank of India is authorized to issue directives to banks under Section 21 of Banking Regulation Act, 1949 in the interest of depositors, members of public or banking policy. These directives issued by the Directives Section mostly pertain to advances and deposits of banks.

BANK AUDIT KNOWLEDGE BANK



- ❑ 29 Accounting Standards issued by ICAI.
- ❑ 34 RBI Master Circular.
- ❑ 54 RBI Master Directions.
- ❑ Auditing Standards Issued by ICAI.
- ❑ Guidance Notes Issued by ICAI.
- ❑ Internal Audit Standards issued by ICAI.
- ❑ Directions of Banking Regulation Act.

ILLUSTRATIVE LIST OF BANK AUDIT REPORTS

- ❑ **Statutory Audit Report about Financials.**
- ❑ **Long Form Audit Report.**
- ❑ **Report on Internal Financial Controls.**
- ❑ **Other Audit Reports as per the requirements (Eg: Internal Audit Report, Concurrent Audit Report, Stock Audit Report).**
- ❑ **Certificates.**

GENERAL OBJECTIVES OF AUDIT REPORTING

- INFORMATION ABOUT A REPORTING ENTITY'S ECONOMIC RESOURCES, CLAIMS AGAINST THE ENTITY AND CHANGES IN RESOURCES AND CLAIMS.
- QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION.
- RIGHT INFORMATION TO REPORTING AUTHORITY.
- RECOGNITION AND DERECOGNITION.
- MEASUREMENT & MATERIALITY.
- RELEVANCE.
- FAITHFUL REPRESENTATION.
- PRESENTATION & DISCLOSURE.



THE FINANCIAL STATEMENTS ADEQUATELY DISCLOSE

- ❑ The significant accounting policies selected and applied.
- ❑ The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.
- ❑ The accounting estimates made by management are reasonable.
- ❑ The information presented in the financial statements is relevant, reliable, comparable, and understandable.
- ❑ The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.
- ❑ The terminology used.

When we say effective financial reporting, we think of enhanced quality of relevant disclosures required by accounting standards, whereby important and sufficient information is concisely and clearly conveyed.

The goal is to support decision-making by those providing resources to the company. Such decisions include buying, selling or holding equity and debt securities of the company, providing or settling loans or other credit, exercising voting rights, or otherwise influencing management's actions.



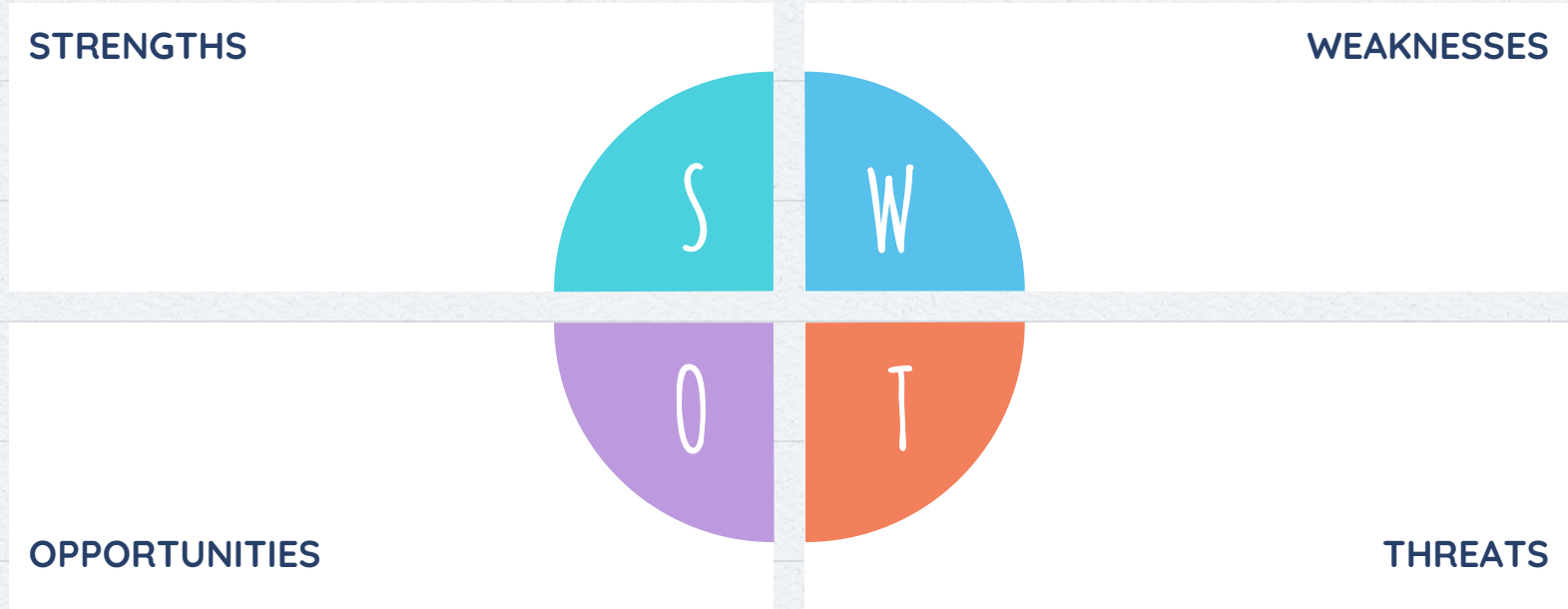
ISSUES FACED DURING BANK AUDIT

ILLUSTRATIVE OVERVIEW



Conducting Audit and Forming an Opinion are not well ordered every time.

SWOT ANALYSIS IS IMPORTANT



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ **Non Disclosure of all Significant Accounting Policy Adopted in Preparations and Presentation of Financial Statements (Non Compliance of AS 1, Para 24).**
- ❑ **Non Classification of Loan made and repayment thereof under Cash Flows from Operating Activities. Mostly it is classified under Cash Flows from Financial Activity (Non Compliance of AS 3 Para 14).**



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ Nature of Contingent loss arising out of events occurring after Balance sheet date has been disclosed but as estimate of its Financial Effect has not been disclosed, Eg: Legal Cases (Non Compliance of AS 4 Para 9.2).
- ❑ Short Provision for Bonus , Provisions for Income tax relating to earlier years, Investment write off have been directly adjusted to Reserve & Surplus .These items needs to recognized in Statement of Profit and Loss (Non Compliance of AS 5 Para 5).



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ Extra ordinary items disclosed under Operating Cash Flows but not disclosed in Profit & Loss Account Statement (Non Compliance of AS 5 Para 8).
- ❑ Non disclosure of circumstances where Revenue Recognition has been postponed pending the resolution of significant uncertainty (Non Compliance of AS 9 Para 9.2 , 12).



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ **Basis of selection of certain class of asset for Revaluation not disclosed (Non Compliance of AS 10 Para 8).**
- ❑ **Accounting Policy relating to various employee benefits are disclosed as per AS 15 but no disclosure has been given in respect of employee benefit in the nature of defined benefit (Non Compliance of AS 15, Para 120).**



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ **Segment Reporting . Investment and Advance shown under same reportable segment (Non Compliance of AS 17).**
- ❑ **Remuneration paid to Key Management Personnel has not been under related party disclosure. Only a reference to the note on Managerial Remuneration has been given (Non Compliance of AS 18 Para 23).**



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ **Uniform accounting policies not followed in preparing consolidated financial statement , no disclosure about proportional items where different accounting policy applied (Non Compliance of AS 21, Para 20).**
- ❑ **Non Deduction of DTA from Tier 1 Capital . Creation of DTA results in an increase in Tier I capital of a bank without any tangible asset being added to the banks' balance sheet. Therefore, in terms of the extant instructions on capital adequacy, DTA, which is an intangible asset, should be deducted from Tier I Capital (Non Compliance of AS 22).**

ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ **Equity Method of Accounting not followed for Investment in associates although the Investment are not fall under exceptional category (Non Compliance of AS 23, Para 3.8 and Para 7).**
- ❑ **Non Disclosure regarding amount of Net Cash Flows Attributable to Operating, Investment and Financial Activities of Discontinuing Operation during the current financial year reporting period (Non Compliance of AS 24 para 20h).**



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ Non Disclosure of Floating Provisions in Notes to accounts.
- ❑ Non Disclosure of The total eligible amount of HO borrowings balance sheet under the head Upper Tier II capital raised in the form of Head Office borrowings in foreign currency.
- ❑ Non Disclosure of Movement of Provisions held towards depreciation on Investments.
- ❑ Valuation digress of Repo, SLR, NON SLR, Derivative Securities.



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ Non Disclosure of Risk Management Policy for Derivatives.
- ❑ Non Disclosure about Asset Quality , Restructured Accounts.
- ❑ Non Disclosure of Asset sold under Securitization.
- ❑ Short provision on NPA.
- ❑ Non Disclosure of NPA asset Purchased.
- ❑ Wrong Bucketing of under ALM.



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ **Non Disclosure of Exposure to Real Estate , Capital Market. Country wise Risk Exposure.**
- ❑ **Non Disclosure about SBL, GBL.**
- ❑ **Non Disclosure of Unsecured Advances.**
- ❑ **Non disclosure of Penalties Imposed.**
- ❑ **Evaluation divergence of Credit Portfolio.**
- ❑ **Non Compliance with Regulators not reported.**



ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ Wrong figures written in Certificates.
- ❑ Wrong calculation of Priority Sector Limit.
- ❑ No Provisioning of aged balances.
- ❑ Non Reconciliation of significant unreconciled debit and credit entries in Nostro Accounts.
- ❑ Wrong Certification about IT Environment and Risk.
- ❑ Non reporting about Data Quality and Gaps.

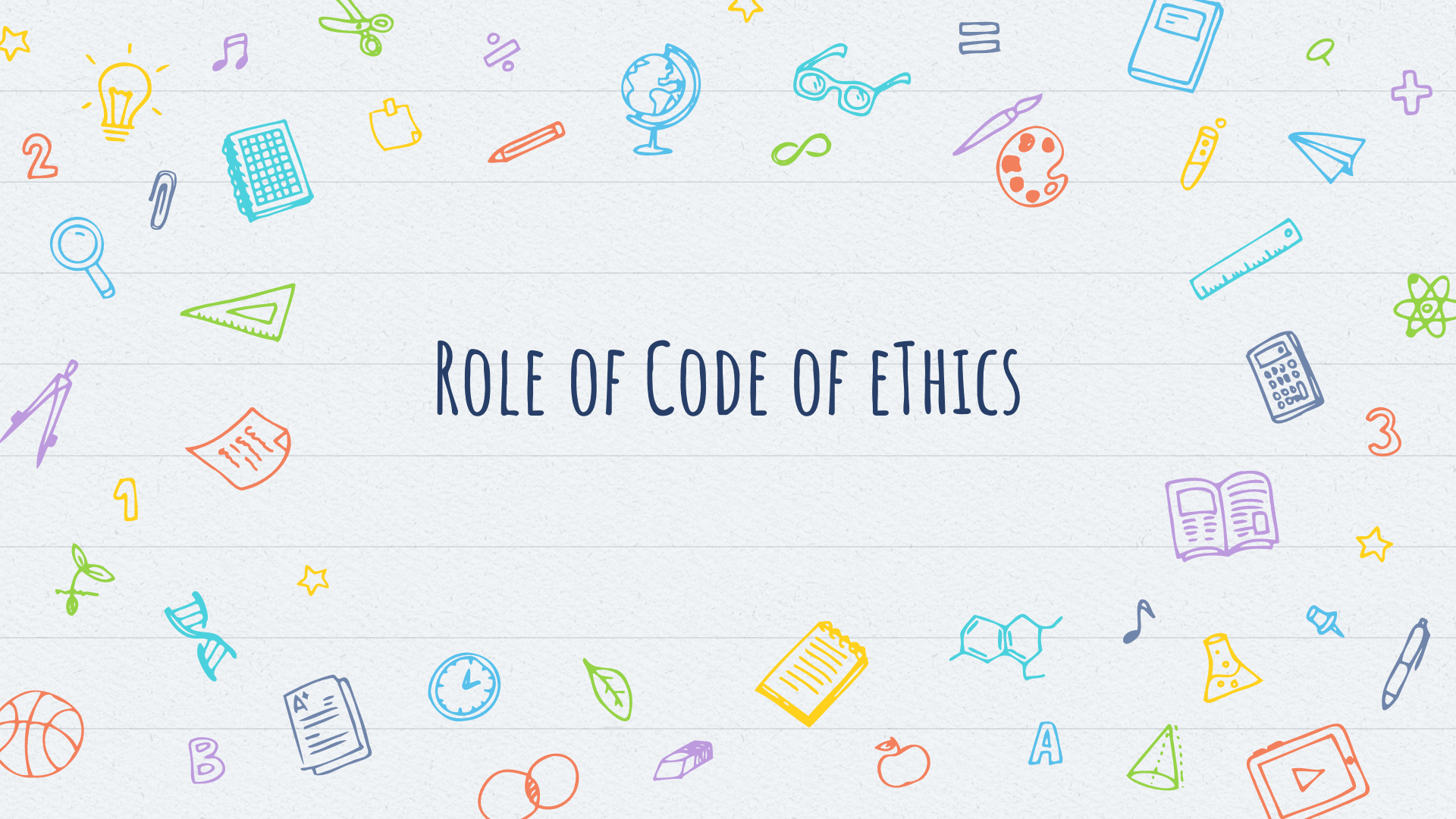


ILLUSTRATIVE DIVERGENCES IN BANK AUDIT ASSIGNMENTS

- ❑ Cash and securities not tallied .
- ❑ Proper Documentation and Reconciliation of Trade Finance and Advances not available in bank but not reported.
- ❑ NPA automation not adopted by the Bank but not reported.
- ❑ Non evaluation of STR , CTR.
- ❑ Non reporting Red flags.
- ❑ Non Reporting of gaps on AML guidelines and PMLA Act.



ROLE OF CODE OF ETHICS



WHAT LAW APPLIED TO CHARTERED ACCOUNTANT IN INDIA ?

The Chartered Accountant Act 1949 & Rules , Code of Ethics issued by ICAI

WHAT IS PROFESSIONAL MISCONDUCT

SECTION 22 OF CA 1949 ACT SAYS:

For the purposes of this Act, the expression “professional or other misconduct” shall be deemed to include any act or omission specified 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 any member of the Institute under any other circumstances.

Code of Ethics divided in to :

Part 1 : Adoption of International Code of Ethics for professional accountant issued by International Ethical Standard Board.

Part 2 : CA Act and clauses and various Council Guidelines.

Part 3 : Case Laws of the Code.



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 Service

EX: PA 's employed, engaged or contracted in an executive or nonexecutive capacity in Commerce , Industry , Public Sector , Regulatory bodies , Professional bodies. Individual PA 's in public practice when performing professional activities pursuant to their relationship with the firm as an employee.

Part 3

Professional Accountants in Public Practice

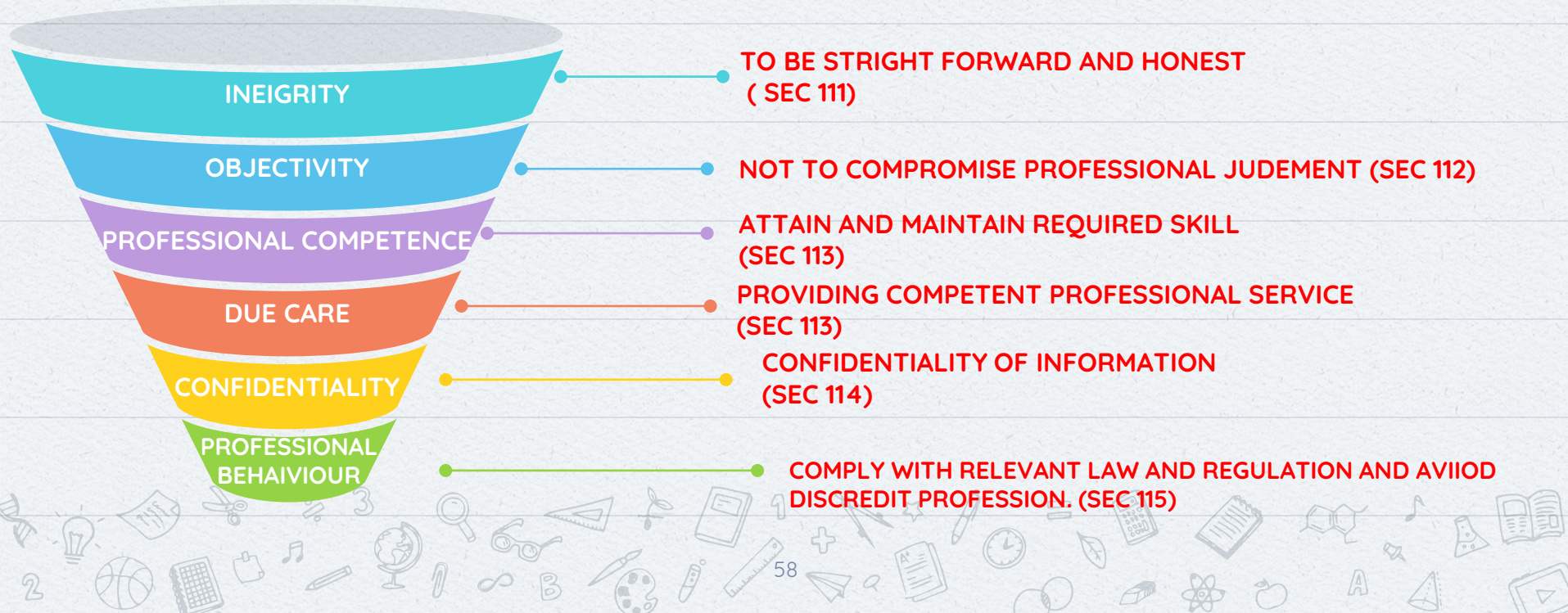
International Independence Standards (Parts 4A & 4B)

Part 4A—Independence for Audits & Reviews

Part 4B—Independence for Other Assurance Engagements

Glossary (All Professional Accountants)

ETHICAL RULES (SEC 111-115, COE2019)



ETHICAL RULES

CONCEPTUAL FRAMEWORK APPROACH (SEC 120 OF COE 2019)

The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles.

Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest.

Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships that create threats to compliance with the fundamental principles.



ETHICAL RULES

CONCEPTUAL FRAMEWORK APPROACH (SEC 120 OF COE 2019)

The conceptual framework specifies an approach for a professional accountant to:

- ❑ Identify threats to compliance with the fundamental principles,
- ❑ Evaluate the threats identified,
- ❑ Address the threats by eliminating or reducing them to an acceptable level.



THREATS IN ETHICS

Self Interest Threats

Self Review Threats

Advocacy Threats

Familiarity Threats

Intimidation Threats

ETHICAL RULES

BREACH IN AUDIT AND REVIEW ENGAGEMENTS

What course of action shall be taken by a Firm when it identifies a Breach in Audit and Review Engagements?

As per requirement under paragraph R400.80 of Volume-I of Code of Ethics, subject to the eligibility requirements of the auditor mentioned under Section 141 of the Companies Act, 2013, if a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach,**
- Consider whether any legal or regulatory requirements apply to the breach and, if so Comply with those requirements ,**

ETHICAL RULES

BREACH IN AUDIT AND REVIEW ENGAGEMENTS

What course of action shall be taken by a Firm when it identifies a Breach in Audit and Review Engagements?

Promptly communicate the breach in accordance with its policies and procedures to:

- The engagement partner,
- Those with responsibility for the policies and procedures relating to independence,
- Other relevant personnel in the firm and, where appropriate, the network,
- Those subject to the independence requirements in Part 4A who need to take appropriate action.

ETHICAL RULES

BREACH IN AUDIT AND REVIEW ENGAGEMENTS

What course of action shall be taken by a Firm when it identifies a Breach in Audit and Review Engagements?

Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report and Depending on the significance of the breach, determine:

- Whether to end the audit engagement,**
- Whether it is possible to take action that satisfactorily addresses the consequences of the breach,**
- whether such action can be taken and is appropriate in the circumstances.**

ETHICAL RULES BREACH IN AUDIT AND REVIEW ENGAGEMENTS

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

ETHICAL RULES

PA's should not knowingly associated with Reports , Returns, Communications or any other information where PA believe that the information contains:

- Contains Materially False or Misleading Statements.
- Omits or Obscures such required information otherwise it is become misleading.
- Content Statements or information provided negligently.

PA's should

- Modify there opinion in respect of these matter to avoid breach.
- PA should disassociate himself from that assignment to avoid breach.



ETHICAL RULES

PA's should

- Be unbiased.
- Attain and Maintain Professional Knowledge.
- Implement & Act diligently
- Continuous Awareness about Legal , Technical, Professional, Standards requirements.
- Perform Professional Duty Timely , thoroughly and carefully.
- Undergo Continuous Professional Developments.
- Take appropriate steps to give proper training , supervision of team working under him.
- Provide sound judgment by applying all requirements.

PROFESSIONAL MISCONDUCT (SCHEDULE 1 OF CHARTERED ACCOUNTANT ACT)

- ❑ **Part 1** Professional Misconduct in relation to Chartered Accountants in practice (Clause 1-12).
- ❑ **Part 2** Professional Misconduct in Relation to Members of the Institute in Service (Clause 1-2).
- ❑ **Part 3** Professional Misconduct in Relation to Members of the Institute generally (Clause 1-2).
- ❑ **Part 4** Other Misconduct of Members in General (Clause1-2).



PROFESSIONAL MISCONDUCT (SCHEDULE 2 OF CHARTERED ACCOUNTANT ACT)

❑ **Part 1 Professional Misconduct in relation to Chartered Accountants in practice (Clause 1 -10).**

❑ **Part 2 Professional Misconduct in Relation to Members of the Institute in Service (Clause 1-4).**



COMMON PROFESSIONAL MISCONDUCT DURING BANK AUDIT ASSIGNMENTS

- ❑ Shares fees with non-Member (Clause 2, Part 1, First Schedule).
- ❑ Enters into partnership with non-Member (Clause 4, Part 1, First Schedule).
- ❑ Fails to communicate with outgoing auditor (Clause 8, Part 1, First Schedule).
- ❑ Acts falsely as FCA (Clause 1, Part III, First Schedule).



COMMON PROFESSIONAL MISCONDUCT DURING BANK AUDIT ASSIGNMENTS

- ❑ Bring disrepute to the profession/Institute as a result of his action (Clause 2, Part IV, First Schedule).
- ❑ Discloses information acquired without client's consent (Clause 1, Part I, Second Schedule).
- ❑ Certifies/submits report without examining the related records (Clause 2, Part I, Second Schedule).



COMMON PROFESSIONAL MISCONDUCT DURING BANK AUDIT ASSIGNMENTS

- ❑ Fails to disclose any material fact in Financial Statement(Clause 5, Part I, Second Schedule).
- ❑ Fails to report a known material misstatement appearing in Financial Statement(Clause 6, Part I, Second Schedule).
- ❑ Performs professional duties without due diligence/grossly negligent (Clause 7, Part I, Second Schedule).



COMMON PROFESSIONAL MISCONDUCT DURING BANK AUDIT ASSIGNMENTS

- ❑ Fails to obtain sufficient information for expressing an opinion (Clause 8, Part I, Second Schedule).
- ❑ Fails to invite attention to any material departure from the generally accepted procedure of audit (Clause 9, Part I, Second Schedule).
- ❑ Contravenes any of the provisions of the Act/Regulations & Guidelines issued by the Council (Clause 1, Part 2, Second Schedule).



QUESTIONS ,ANSWER & CASE LAW

AS PER COE OF ICAI

WHETHER THE CONCURRENT AUDITOR OF A BANK CAN ACCEPT TAX AUDIT OF THE SAME BANK?

No, the Concurrent Auditor of a Bank cannot accept the Tax audit assignment of the same Bank, as it would affect independence in terms of the provisions of Code of Ethics that Statutory Audit and Internal Audit cannot be done together, as also in terms of the provisions of Section 288 of the Income Tax Act, 1961 which prohibits undertaking Concurrent Audit and Tax Audit simultaneously.



WHETHER A MEMBER CAN SIMULTANEOUSLY BE THE INFORMATION SYSTEM AUDITOR AND CREDIT APPRAISER OF THE SAME BANK?

A member can simultaneously be the Information system Auditor and Credit Appraiser of the same Bank except in case where appointment as Information system Auditor has been made under a statutory or regulatory requirement. However, he should ensure at his end that there is no conflict of interest involved.



WHETHER THE CONCURRENT AUDITOR OF A BRANCH OF A BANK CAN UNDERTAKE THE ASSIGNMENT OF LFAR OF THE SAME BRANCH?

The concurrent Auditor of a Branch can undertake the assignment of LFAR only with respect to Branches which are not subject to Statutory Audit.

With respect to Branches which are subject to Statutory Audit, the LFAR assignment shall be undertaken by the Statutory Auditor.



WHETHER A MEMBER IN PRACTICE CAN ACCEPT STATUTORY AUDIT OF A BANK IN CASE IF HE HAS TAKEN LOAN FROM THE BANK AGAINST FIXED DEPOSIT?

No, “Indebtedness” would include loan taken by a member against Fixed Deposit or any other security. It is the Indebtedness beyond the existing limit of Rs.1,00,000/- is in question and not the type of security against such Indebtedness. Thus, a member is not permitted to accept audit assignment of a bank in case he has taken loan against a Fixed Deposit held by him in that bank beyond the existing indebtedness limit.



WHETHER THE ISSUE OF INDEPENDENCE OF AUDITOR IS LINKED WITH THE PERFORMANCE CERTIFICATE OF BRANCH AUDITORS REQUIRED FROM BRANCH MANAGERS OF A BANK?

The “Performance Certificate” appears to be something of internal use of Banks also apparent that the said report is confidential.

There is nothing to be done by auditor or ICAI is in this regard. Since it is something in domain of client only, no independence issue is involved.



WHETHER THE INCOMING AUDITOR OF AN ENTITY CAN COMMUNICATE WITH THE RETIRING AUDITOR VIDE EMAIL?

Yes, the Incoming Auditor of an entity can communicate with the retiring auditor vide email. However, the positive proof of delivery of email to the previous auditor will be reckoned on the receipt of acknowledgement of the communication from retiring auditor's by email address registered with the Institute or his last known official email address.



WHETHER AUDITOR OF A BANK CAN COMMENCE AUDIT IMMEDIATE AFTER COMMUNICATION WITH PREVIOUS AUDITOR AND WITHOUT WAITING FOR REASONABLE TIME?

In the case of audit of government Companies/ banks or their branches, the time schedule given for the assignment is such that there is no time to wait for the reply from the outgoing auditor, the incoming auditor may give a conditional acceptance of the appointment and commence the work which needs to be attended to immediately after he has sent the communication to the previous auditor in accordance with this clause. In his acceptance letter, he should make clear to the client that his acceptance of appointment is subject to professional objections, if any, from the previous auditors and that he will decide about his final acceptance after taking into account the information received from the previous auditor.



WHETHER A MEMBER IN PRACTICE CAN BE A DIRECTOR IN COOPERATIVE BANK?

Yes. A member in practice may be a Director Simplicitor in a Co-operative Bank, provided he is not in charge of the executive functions, or he, or Chartered Accountancy Firm wherein he is a partner, or any of the partner of the said firm are not interested in the Bank as an auditor.



WHETHER A CHARTERED ACCOUNTANT WHO IS APPOINTED AS TAX AUDITOR FOR CONDUCTING SPECIAL AUDIT UNDER THE INCOME-TAX ACT BY THE IT AUTHORITIES IS REQUIRED TO COMMUNICATE WITH STATUTORY AUDITOR?

Yes, Council direction mentioned in Paragraph 2.14.1.8(xiii) under Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, appearing in Volume II of the Code of Ethics, prescribes that it would be a healthy practice if a tax auditor appointed for conducting special audit under the Income-tax Act, 1961 communicates with the members who has conducted the statutory/tax audit.



WHETHER A MEMBER CAN ACCEPT APPOINTMENT AS STATUTORY AUDITOR OF CERTAIN BRANCH(ES) OF A BANK, WHILE HE IS THE REVENUE AUDITOR OF DIFFERENT BRANCH(ES) OF THE SAME BANK ?

No, a member is not permitted to accept the appointment as Statutory Auditor of certain branch(es) of a Bank while he is the Revenue Auditor of different branch(es) of the same Bank.



WHETHER THE CONCURRENT AUDITOR OF A BANK CAN ACCEPT REVENUE AUDIT OF THE SAME BANK?

Yes, the Concurrent Auditor of a Bank can accept Revenue Audit of the same Bank since both the Audits are of the nature of management function.



ARUN KUMAR AGARWAL (ON THE BASIS OF RECEIVED LETTER) - PAGE 27
OF VOL I PART I OF DISCIPLINARY CASES, JUDGMENT DELIVERED ON
3RD FEBRUARY, 2011).

A Chartered Accountant while in service holding full time COP and conducted Bank Audit. He was also charged with running a business but after verification of Balance Sheet, Profit & Loss Account, Tax Audit Report and Income Tax Return of that company it was found in the name of his wife who was the proprietor. Held guilty of 'professional misconduct' falling under Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949. Further, he was not guilty of professional misconduct with respect to the charge of running a business.

Clause-11 Engages in any other occupation



S N DASGUPTA IN RE: - PAGE 57 OF VOL. II OF THE DISCIPLINARY CASES
AND PAGES 80-92 OF SEPTEMBER, 1955 ISSUE OF THE INSTITUTE'S
JOURNAL -JUDGEMENT DELIVERED ON 1ST AUGUST, 1955).

Where a Chartered Accountant, in a Bank Audit reported to the shareholders that he had not verified the cash on hand and that he had also signed the balance sheet in anticipation of the receipt of confirmation letters from the banks in respect of the cash said to be lying with them and failed to report on the weakness of the banks financial position. Held, that he was guilty of the first and third charges falling under Clause (7). Verification of cash was an essential duty of an auditor which he failed to discharge and in signing the report in anticipation of receiving the confirmation letters from banks, he had failed to perform his duties with the requisite skill and diligence.

Clause 7 Part 1 Second Schedule - Performs professional duties without due diligence/grossly negligent



CONCLUSION

**Ethics is the foundation of building trust.
The objective of Ethical Standards Board is to set up ethical standards for chartered accountants, converge with the International best practices on ethics, subject to local laws, thereby enhancing the quality and consistency of services provided by chartered accountants and
Strengthening the public confidence in the profession.**

ANY QUESTIONS?

STANDARDS ON AUDITING FOR RELATED SERVICES ISSUED BY ICAI

- ❑ SRS 4400
- ❑ SRS 4410
- ❑ Engagements to perform agreed upon procedures regarding financial information.
- ❑ Compilation Engagement.



ILLUSTRATIVE LIST OF GUIDANCE NOTES USEFUL FOR BANK AUDIT ISSUED BY ICAI

- ❑ Guidance Notes on Audit of Bank (2022 Edition).
- ❑ Guidance Notes on Audit of Consolidated Financial Statements.
- ❑ Guidance Notes on Reports or Certificates for Special Purposes.
- ❑ Guidance Notes on Audit of Internal Financial Controls over Financial Reporting.
- ❑ Revised Guidance Notes on Reporting on Fraud under Section 143 (2) of Companies Act 2013.
- ❑ Revised Guidance Notes on Independence of Auditor.
- ❑ Guidance Notes on Preparation of Financial Statement on Letter Head and Stationary of Auditor.

ACCOUNTING STANDARDS ISSUED BY ICAI

- AS 1 Disclosure of Accounting Policies
- AS 2 Valuation of Inventories
- AS 3 Cash Flow Statements
- AS 4 Contingencies and Events Occurring After the Balance Sheet Date
- AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
- AS 7 Construction Contracts
- AS 9 Revenue Recognition
- AS 10 Property, Plant and Equipment

ACCOUNTING STANDARDS ISSUED BY ICAI

- ❑ AS 11 The Effects of Changes in Foreign Exchange Rates
- ❑ AS 12 Accounting for Government Grants
- ❑ AS 13 Accounting for Investments
- ❑ AS 14 Accounting for Amalgamations
- ❑ AS 15 Employee Benefits
- ❑ AS 16 Borrowing Costs
- ❑ AS 17 Segment Reporting
- ❑ AS 18 Related Party Disclosures
- ❑ AS 19 Leases
- ❑ AS 20 Earnings Per Share

ACCOUNTING STANDARDS ISSUED BY ICAI

- ❑ AS 21 Consolidated Financial Statements
- ❑ AS 22 Accounting for Taxes on Income
- ❑ AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
- ❑ AS 24 Discontinuing Operations
- ❑ AS 25 Interim Financial Reporting
- ❑ AS 26 Intangible Assets
- ❑ AS 27 Financial Reporting of Interests in Joint Ventures
- ❑ AS 28 Impairment of Assets
- ❑ AS 29 Provisions, Contingent Liabilities and Contingent Assets

STANDARDS ON INTERNAL AUDIT ISSUED BY ICAI

- ❑ SIA 110
- ❑ SIA 210
- ❑ SIA 230
- ❑ SIA 240
- ❑ SIA 300-400
- ❑ Nature of Assurance
- ❑ Managing Internal Audit Function.
- ❑ Conducting Overall Internal Audit Planning.
- ❑ Objectives of Internal Audit.
- ❑ Standard on Conduct of Audit Assignments.



THANK YOU!