

ETHICS e-BULLETIN

ETHICAL STANDARDS BOARD (ESB)



THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF INDIA





CA. Jaydeep N. Shah
President, ICAI

The Institute of Chartered Accountants of India has always been the forefront crusader of the accounting profession since inception and in this endeavour; it has always been vigilant in ensuring that the training of its members is comparable with the best in the world. Among the various parameters set out for the members, ethics is undoubtedly of unique importance. It will not be an exaggeration to call ethics as heart and soul of any profession. The pride felt by a member of this noble profession is manifestation of several attributes, and ethics is perhaps foremost of them, inculcating stringent compliance with the established ethical standards for the profession; sincere obedience with the five fundamental principles required of a chartered accountant, namely, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour; and maintaining allegiance to the constant modifications being evolved in the ethical standards. We understand that people who utilize the services of a chartered accountant, directly or indirectly, expect them not only to be competent, but also reliable, objective, and person of integrity.

As you already know, with an avowed object of creating awareness among the Chartered Accountants about the initiatives and updates in the realm of ethics, the Ethical Standards Board (ESB) of ICAI has come up with Ethics e-Bulletin. It is an important stride towards making the community of chartered accountants well aware of what is latest on ethics. I congratulate CA K.Raghu, Chairman, Ethical Standards Board, and his team for this phenomenal measure taken for the benefit of members.

Wishing all the readers an enriching and erudite reading experience.

CA Subodh Kumar Agrawal
Vice- President, ICAI



In this era of fast living, changing parameters of life and transnational approach of every thing affecting the public and governments, the one thing that has become more desirable than ever is : morality and ethics . As ethics is indisputably necessary in all walks of life, it is similarly imminent in the professional arena. More so in the profession of chartered accountancy, since the stakeholders depending on the services of chartered accountants are so many: clients, banks, government, employees, investors, business community and the general public.

The Institute of Chartered Accountants of India was entrusted vide the Chartered Accountants Act, 1949, with making its own norms in various spheres relating to the profession of chartered accountancy and updating the same from time to time. Its ethical standards, among others, are one of the most stringent, not only from the national yardstick, but internationally as well. We believe that any compromise made in ethical standards makes an assignment flawed. On the other hand, strict compliance of ethics takes us places, we outshine others, develop credibility and edge over others, gain recognition internationally, and last, but not the least, gives a sense of satisfaction to our conscience.

The recent trend of globalization and its repercussions on daily lives of all of us has reinforced need of constant review of ethical standards. We have the Ethical Standards Board, which works towards formulating and updating ethical standards, creating and promoting public awareness and confidence in the fundamental principles for members. Way forward in this pursuit, the initiative of Ethical Standards Board to publish Ethics e-Bulletin is welcome since ethics is the fundamental foundation on which edifice of successful Chartered Accountancy profession rests. I hope that the members get useful and relevant information from the e-Bulletin, and are thoroughly benefited from the same. Through this, we have surely open up a well accessible mode for disseminating awareness among members. I am sure it only gets better with time. My best wishes for this second edition of Ethics e-bulletin.

With best wishes,



CA K. Raghu

Chairman, Ethical Standards Board

Men may come and go but institutions will remain forever. Professionals are sometimes called as 'social trustees' and as such they themselves are institutions by virtue of their high social responsibilities and technical/professional expertise. However, they for this reason enjoy high esteem and regard in the society. Coming to the profession of Chartered Accountancy profession, it involves technical, specialized and highly skilled work.

Professionals, like Chartered Accountants who are a part of intelligentsia of society are expected to possess a high degree of objectivity and integrity. Ethics in accountancy profession is invaluable to accounting professionals. Earlier, professional status was defined as much by a sense of ethical and public responsibility as by specialized knowledge. Today, however, professionals increasingly define themselves strictly in terms of their command of technical matters and by their marketable knowledge and skills. Therefore, conflict of interest between professionalism and ethical behaviour is inevitable.

In this backdrop, Ethical Standards Board, the ethical standards setter of ICAI has come out with e-newsletter to update and disseminate the information on ethics to members. Let us welcome the second edition of ETHICS e- Bulletin.

With best wishes,

CA V.Murali

Vice- Chairman, Ethical Standards Board



We as Chartered Accountants are part of the 'professional' intelligentsia of society. A Code of Ethics and conduct is one of the core bastions of any professional. We garner respect from our stringent self-regulations and high standards of ethical behaviour which goes a long way in being a part of our integrity.

We are responsible to the various stake holders of society who depend on us for our expertise and technical competence, because of these high expectations, we have a code of ethics for Chartered Accountants. The Code of Ethics calls for members to maintain a level of self-discipline that goes beyond the requirements of laws and regulations.

Disseminating knowledge and information with regard to the developments through an E-Bulletin is a pro-active initiative of the Ethical Standards Board and it gives me immense pleasure to be a part of this evolving technological e-bulletin which I hope will help the Professionals with regular updates.

With the trend being increasingly towards e-specialization of various services, it is for us to absorb, assimilate and adapt to the face of changing technology. I am of the firm belief that there is a great future for our CA Professionals because wherever there is economic growth and progress there are new opportunities in store.

I am ever the optimist who has unshakable faith that there is a great future in store for all of us and the words of Oliver Wendell Holmes come to me "Greatness is not in where we stand and in what direction we are moving, we must sail sometimes with the wind and sometimes against it, but sail we must and not drift, nor lie at anchor."

With warm professional regards,



Photo Gallery



CA. Subodh Kr. Agrawal, V. President, ICAI at Three Day's RRC at Darjeeling held on 5-7 June, 2012



CA K. Raghu, Chairman, ESB addressing the audience at Ernakulam on 25 May, 2012



CA K. Raghu, Chairman ESB with Mr N P Singh, Secretary, ESB in IESBA Meeting at New York held on 25-4-2012



Inauguration of Seminar on Code of Ethics at Nagpur on 26 May, 2012



CA. K. Raghu, Chairman, ESB Inaugurating the seminar on Code of Ethics at Ernakulam on 25 May, 2012

Composition of ESB 2012-13

MEMBERS

CA. K. Raghu, Chairman
CA. V. Murali, Vice- chairman
CA. Jaydeep Narendra Shah, President (Ex-officio)
CA. Subodh K. Agrawal, Vice-President (Ex-officio)
CA. Dhinal A. Shah
CA. Madhukar N. Hiregange
CA. Manoj Fadnis
CA. P. Rajendra Kumar
Shri Manoj Kumar
Shri Prithvi Haldea
Shri Sidharth Birla

CO-OPTED MEMBERS

CA. Ajit Anantrao Gokarn
CA. Ashok K. Khurana
CA. Munish Saraogi

SECRETARIAT TO THE BOARD

Shri N.P.Singh, Secretary
Shri Ravindra Singh Pundhir, Executive Officer
Shri Ashish Swaroop Bhatnagar, Executive Officer
Smt A. Aruna Sarma, Executive Officer
CA. Akshay Chandan, Associate

MISSION

To work towards evolving a dynamic and contemporary Code of Ethics and ethical behaviour for members while retaining the long cherished ideals of 'excellence, independence, integrity' as also to protect the dignity and interests of the members.

TERMS OF REFERENCE

- ▲ To examine various issues concerning Code of Ethics governing the members of the Institute
- ▲ To formulate and establish ethical standards for the profession
- ▲ To examine and advise on any ethical matters referred to the Board
- ▲ To review periodically and publish the revised Code of Ethics and other publications relating to ethics.
- ▲ To promote public awareness and confidence in the integrity, objectivity, competence and professionalism of the members and to co-ordinate with other Committees.
- ▲ To examine and deal with the complaints of members against their unjustified removal as auditors of any entity as per procedure evolved and to take necessary steps to protect the interests of the members

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WELCOME

Welcome to the second edition of the Ethics e - Newsletter. Our new bimonthly publication aims to keep you informed on issues relevant to ethics and other latest updates on ethics.

INTERNATIONAL INITIATIVES

The next International Ethical Standards Board for Accountants (IESBA) meeting is going to be held on June 18 - 20, 2012 New York, USA. The agenda of the meeting will be available on the following site <http://www.ifac.org/Ethics/Meetings.php>

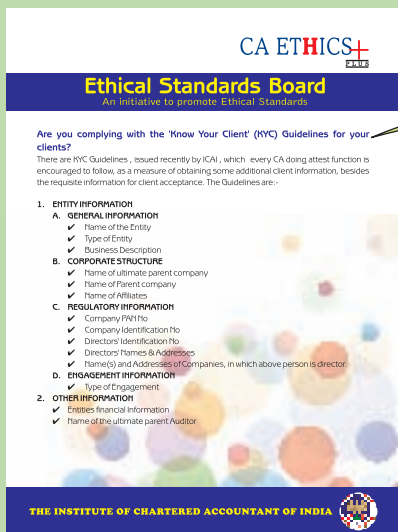
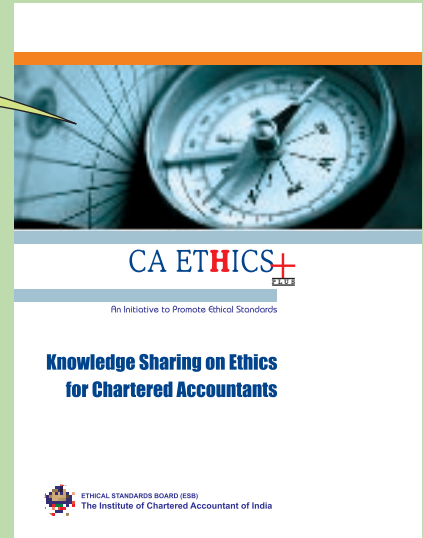
INITIATIVE OF ESB ON ETHICS

- ▲ The Ethical Standards Board finalised revision of 'FAQs on Ethical issues', publication of ESB, and the same was released at the Annual Function of the Institute held on 11th February, 2012.
- ▲ The Ethical Standards Board has finalised recommendations on revision of Part-B of the Code of Ethics in view of the developments taken place since last revision, and the same have been placed before the Council.
- ▲ The Ethical Standards Board has decided to conduct out reach programmes on ethical standards for the members across the Country.
- ▲ The Ethical Standards Board has decided to send e-mail flashes (single subject at a time) regularly to members.
- ▲ The Ethical Standards Board has decided to bring out a brochure on issues of Ethics in Question –Answer form for the awareness of members.

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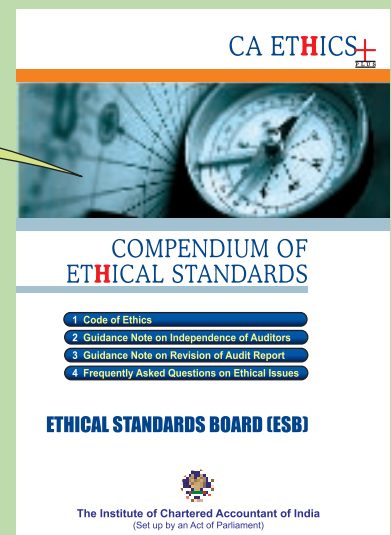
INITIATIVES OF ETHICAL STANDARDS BOARD

The Ethical Standards Board has taken an initiative and launched CA. ETHICS PLUS Brochure to promote the Ethical Standards amongst members whereby various frequently asked Ethical queries of the members have been answered in a precise and concise manner.



The Ethical Standards Board has launched an educative initiative of E-mail flashes highlighting some of the important decisions of the Ethical Standards Board / Council. The E-mail Flashes are being sent to all practicing members of the profession on weekly basis.

The Ethical Standards Board has taken another initiative and prepared a Compendium of Ethical Standards for members to be distributed in the various workshops/ Seminars and Outreach Programmes of the Board.



ACTION PLAN 2012 – 2013

Ethical Standards Board

- ☞ To consider the issues suggested by Council to be dealt with by ESB in formulating strategy for finalizing the mission statement of the Council of the Institute.
- ☞ To bring awareness of the provisions of Code of Ethics among the members and devise ways to acquaint the members belonging to all areas of the Country, including the remote areas, of the provisions of Code of Ethics. Further, the following are considered for the purpose of propagating ethical awareness at various levels -
 - ⊗ Popularising ethical standards, relevant for members in industry and members in practice, separately.

(This includes publication of compendium of publications of ESB for free distribution among the members at various seminars/programmes on ethical issues attended by them, publish advertisements of Ethical Standards Board to be published in the CA Journal)
 - ⊗ Making ESB website more useful and popular
 - ⊗ Conducting out reach programmes on ethical issues
 - ⊗ Sending e-mail flashes (single subject at a time) on weekly basis to members throughout the country
 - ⊗ Holding national conference of Ethical Standards Board in Ernakulam, Mysore, Vellore, etc.
 - ⊗ To bring out a brochure on issues of Ethics in Question –Answer form for awareness of the members.
 - ⊗ To start a new feature 'Ethics Plus' in the Chartered Accountant journal comprising of ethical issues for the benefit of members.
- ☞ To consider any changes/modifications required in the publication 'Guidance Note on Revision of the Audit Report.'
- ☞ To consider any changes/modifications required in the procedure for 'Unjustified Removal of Auditors' in the light of its working since inception.
- ☞ To consider the directions of Council in the following issues presently pending before the Council:-
 - ⊗ Changes/modifications in the ICAI Code of Ethics, 2009 (Part –A) in view of the revised edition (2010) of IFAC Code of Ethics for Professional Accountants – Recommendation of the Ethical Standards Board.
 - ⊗ Code of Conduct for elected and nominated Representatives of the Council, Regional Councils & Branches of the Regional Council of ICAI for appropriate functioning of the Institute – Recommendation of Ethical Standards Board.
 - ⊗ Revision of the publication titled 'Guidance Note on Independence of Auditors' – Recommendation of Ethical Standards Board.
 - ⊗ Whether the Advertisement and Website Guidelines of ICAI require any changes/modifications – Recommendation of Ethical Standards Board.
 - ⊗ Changes / Modifications in the Part – B of the Code of Ethics in view of the developments taken place since last revision –Recommendations of the Ethical Standards Board.
- ☞ To consider any issues/matters which may be referred by the Council/Executive Committee and other Committees and members from time to time.

Question: Can a member in practice render Management Consultancy and other services?

Answer: Yes, however the areas covered under the Management Consultancy and other services have been summarized by the Council.

Question: Whether a member in practice is permitted to undertake the management of NRI funds?

Answer: No, the member is not permitted to undertake such assignment because the same is not covered under 'Management Consultancy and other services' permitted to be rendered by the practicing members of the Institute.

Question: Can a Chartered Accountant provide 'Portfolio Management Services' as part of CA practice?

Answer: No, the Explanation to Clause (xix) of the definition of 'Management Consultancy and other services' in Guidelines for Corporate Form of Practice expressly bars the activities of broking, underwriting and Portfolio Management.

Question: Whether a Chartered Accountant in practice is required to obtain any trade license for practicing?

Answer: No, a Chartered Accountant in practice is not required to obtain any trade licence for practicing as a professional. The certificate of practice issued by the Institute is the only requirement to practice as a Chartered Accountant.

Question: Can a Chartered Accountant in practice work as a 'Collection Agent'/Recovery Agent?

Answer: No, a Chartered Accountant in practice cannot work as a Collection Agent. However, he can act as a Recovery Consultant as provided in Clause (xxv) in Guidelines for Corporate Form of Practice.

Why a Code of Ethics for Chartered Accountants?

“Relativity applies to Physics, not ethics”

-Albert Einstein

Thus while in Physics, relativity means that there is no absolute position or speed in the universe and things are only relative to each other; on the other hand, ethics stay the same no matter what the variables concerning the issue may be. In the present century, which is witnessing more vibrant & manifold development than ever, and the world shrinking to almost like a small village, with an event in one part of the world having an instant impact on rest of the world, ethics remains an attribute that does not change, and indeed is more sought after than anytime in the past.

One question often comes to our mind: when all nations have their domestic laws in place, why is ethics required at all? The basic reason lies in the fact that unlike law, which is imperative in character, ethics is based on conscience and encourages people to maintain rightful conduct. Ethics provides stricter, more elaborate, and hence more reliable norm of conduct. In fact, it surpasses the expectations as may be posed from law. Here, it will not be out of place to quote the following para appearing at p. 240 of the Code of Ethics, 2009 :-

“ Public conscience is expected to be ahead of the law. Members, therefore, are expected to interpret the requirement as regards independence much more strictly than what the law requires and should not place themselves in positions which would either compromise or jeopardize their independence.”

The Chartered Accountants Act was passed in 1949 with a view to regulate the profession of accountancy in India. The Institute of Chartered Accountants of India was also established in the same year for administration of the Act. The profession is regulated at the central level, and in the same manner and to the same extent all over the country. Accounting, auditing and ethical standards are formulated and monitored for compliance under the provisions of the aforesaid Act by the ICAI. The Act provides for adequate representation from the Government of India in the Council of the Institute and in the Disciplinary Committee of the ICAI.

The Chartered Accountants Act, 1949 and the Schedules appended to the Act set out the permissible norms for the members of the profession. Section 22 of the Act defines and describes what constitutes ‘professional misconduct’. The two Schedules spell in detail the various acts and omissions entailing professional/other misconduct, which are dealt with punishment in accordance with Chapter-V of the Act. The two Schedules are distinguished on

the basis of gravity of misconduct and quantum of punishment for the misconduct, the Second Schedule pertaining to comparably more grave misconduct and higher punishment. As regards quality control, the Institute has the responsibility under Section 15 of the Act to ensure quality of standards of performance of its members. The Disciplinary mechanism of the Institute is provided in the Act.

With the need for codification and compiling all provisions of the Chartered Accountants Act, Council Guidelines, decisions etc. grown, the Council of ICAI in November, 1963 brought the first edition of the 'Code of Conduct', which included not only the provisions of the Chartered Accountants Act but also the interpretation of the Council, various High Courts and the Supreme Court. The 'Code of Conduct' was called as 'Code of Ethics' for the first time in its ninth edition in 2001. Since its first edition the Code has been constantly updated from time to time to fine tune it with the changes in legislation, ethical and professional standards. The fourth edition of the Code included certain relaxations made by Council with regard to publicity by members, seventh edition contained several principles enunciated by the Council e.g. responding to tenders, use of CA designation in invitation cards, requirements of Sections 224 and 225 of the Companies Act, 1956 with regard to appointment and change of Auditors, etc. The eighth edition made changes necessitated by the replacement of Chartered Accountants Regulations, 1964 by the Chartered Accountants Regulations, 1988. The current (2009) edition of the Code of Ethics, being the eleventh edition of Code, has for the first time introduced provisions of the IFAC Code of Ethics.

CONTACT US

The ESB provides guidance to members on questions related to ethics including independence. The e-Sahaayataa is available at the Institute site (www.icaai.org). Members can also reach us by e-mail at esb@icaai.org.

For any comment/query or any suggestion, please contact us at

Mr. N. P. SINGH

Secretary

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