CA FINAL

ADVANCED AUDITING ASSURANCE AND PROFESSIONAL ETHICS

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CA. Sarthak Niraj Jain

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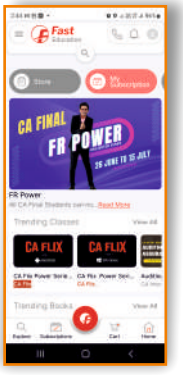
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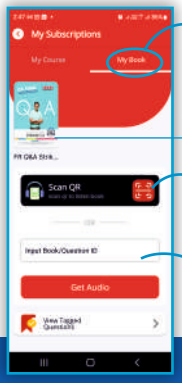
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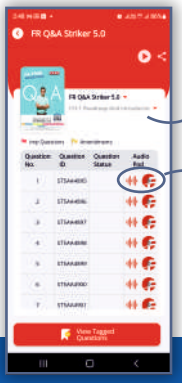
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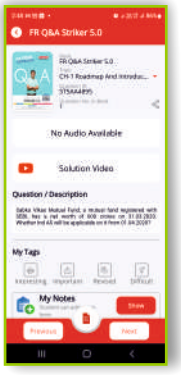
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SPECIAL FEATURES OF BOOK

Chapter 19 **Professional Ethics & Liabilities of Auditors**

Topics	Unique Qs	Total Qs
19.1 - Introduction (The IESBA Code)	5	5
19.2 - Important Provisions of Chartered Accountant,1949		
Section-2(2) - Members Deemed to be in Practice	8	8
Section-6 - Certificate of Practice	1	1
Section-27 - Maintenance of Branch Offices	2	3
19.3- Schedules to the CA Act, 1949 (Professional & Other Misconduct)		
Schedule – 1, Part – 1, Clause – 1	2	2

Questions sorted topic-wise in every chapter

3. Reference of all sources given

Responsibilities of EP and EQCR in relation to Assessment of Independence

During the audit of FMP Ltd., a listed company, Engagement Partner (EP) completed his reviews and also ensured compliance with independence requirements that apply to the audit engagement. The engagement files were also reviewed by the Engagement Quality Control Reviewer (EQCR) except the independence assessment documentation. Engagement Partner was of the view that matters related to independence assessment are the responsibility of the Engagement Partner and not Engagement Quality Control Reviewer. Engagement Quality Control Reviewer objected to this and refused to sign off the documentation. Please advise as per SA 220.

(RTP-May-2022)(Study Material) (MTP-Nov-2019)(RTP-May-2019)

4. Answers as per ICAI language with key words made bold, formatted in paragraphs. Provision, Interpretation and Conclusion para highlighted.

(i) As per SA 220 - Quality control for an Audit of Financial Statements :-

The Engagement Partner shall from a **conclusion on compliance with independence requirements** that apply to the audit engagement. In doing so, **the Engagement Partner shall:**

(a) **Obtain relevant information from the firm** and, where applicable, network firms, to **identify and evaluate circumstances** and relationships that create threats to independence;

(b) **Evaluate information on identified breaches**, if any, of the **firm's independence policies and procedures** to determine whether they create a **threat to independence** for the audit engagement; and

(c) **Take appropriate action to eliminate such threats** or reduce them to an **acceptable level** by applying safeguards, or, if considered appropriate, **to withdraw** from the audit engagement, where withdrawal is **permitted by law or regulation**. The Engagement Partner shall promptly report to the firm any inability to resolve the matter for appropriate action.

(ii) For Audits of Financial Statements of Listed Entities:- The **Engagement Quality Control Reviewer**, on performing an Engagement Quality Control Review, shall also consider among other things, **the engagement team's evaluation** of the firm's independence in relation to the audit engagement.

(iii) Conclusion:- In the given case, the **Engagement Partner is not right**. The **independence assessment documentation** should also be given to Engagement Quality Control Reviewer for his review.

Verifying Compliance with Laws and Regulations (Additional Topic)

You are appointed as an auditor of BHK Ltd., a company engaged in export of agricultural equipment. During the course of audit, your audit team informed you regarding non - deduction of TDS on huge payments made to legal counsel of BHK Ltd. You want to alert your team on the possibility of non-compliance with Laws and Regulations by BHK Ltd. Help your audit team in identifying any other indications of non-compliance with Laws and Regulations particularly related to payments made by the company . **(MTP-May-2023)(Dec-2021)**

OR

As an auditor of TRP Ltd., you are suspicious that there might be non-compliance with Laws and Regulations to which the company is subject to. Indicate the possible areas or aspects where you may have to look out for forming an opinion as to whether your suspicion has some base to further inquire. **(May-2018) (MTP-Dec-2021)**

5. Similar questions clubbed with latest on Top

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Author
CA. Sarthak Niraj Jain

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Chapter 19 Professional Ethics & Liabilities of Auditors

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19.1 - Introduction (The IESBA Code)

1. **Subsection 113 of Revised Code of Ethics**

CA Gosh, newly qualified Chartered Accountant, joins a reputed CA firm as a partner. He is full of confidence about his qualification and feels he possesses complete knowledge of his profession for the future assignments. The senior partner of the firm calls a meeting to brief the new partner and other newly appointed audit assistants in his firm regarding the ethics that need to be kept in mind while carrying out assurance and non-assurance services. One of the areas he touches upon is the professional competence and due care that a Chartered Accountant needs to possess all the time.

Enumerate the matters envisaged in subsection 113 of Revised Code of Ethics that needs to be complied with by a professional accountant with respect to Professional Competence and Due Care. **(Nov-2024)**

Ans. **Professional Competence and Due Care – Subsection 113**

1. PC&DC requires -

(i) **To maintain professional knowledge and skill** at the level required to ensure that clients or employers receive competent professional service as per current standards and legislation; and

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

2. PC requires the exercise of sound judgment in applying professional knowledge and skills.

3. Knowledge and skills vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge, interpersonal, communication and organizational skills facilitate the CA's interaction with entities

4. Maintaining PC requires continuing awareness and understanding of relevant technical, professional, business and technology-related developments. Continuing professional development enables CA to develop and maintain the capabilities to perform competently within the professional environment.

5. Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

6. CA shall take reasonable steps to ensure those working under the CA's authority have appropriate training and supervision.

   Where appropriate, CA shall make clients / employing organisations / other users aware of the inherent limitations and explain the implications of those limitations.

7. The circumstances in which a firm or employing organization seeks authorization to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorization

2. **NOCLAR Vs SA 250**

TP Limited is a listed company engaged in the business of manufacturing of kids garments under the brand name of MM. M/s R & Associates, firm of chartered accountants, are appointed as a Statutory Auditor of the Company for the year 2025-26. CA R is looking after the audit of the Company. During the audit, CA R observed that there are number of notices received from GST Department and Income-tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements". According to CA R, the provisions of SA 250 and the provisions of NOCLAR (Non-Compliance with Laws and Regulations) under Revised Code of Ethics are one and the same. Do you agree? If not, give your comments. **(May-2024, SM)**

Ans. In the given situation, CA R is looking after the audit of TP Limited, a listed company. During the audit, CA R observed that there are a number of notices received from GST Department and Income-tax Department for various issues. Further during plant visit, CA R observed that few child labourers are engaged in some of the activity. In response to the observation made, CA R followed the procedure as envisaged in SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", assuming the provisions of SA 250 and the provisions of NOCLAR (Non-Compliance with Laws and Regulations) under Revised Code of

Ethics are one and the same. However, following points indicates that the provisions of SA 250 and NOCLAR (Non-Compliance with Laws and Regulations) under the Revised Code of Ethics are not one and same:

(i) SA 250 is applicable only on Audit, and not on other Assurance engagements. However, NOCLAR is applicable on chartered accountants in service, and in practice of listed entities.

(ii) SA 250 talks of auditor's responsibilities for laws having direct effect on the determination of material amounts and disclosures in the financial statements (such as tax and labour laws); and other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business. NOCLAR, while being alike to SA 250 till this point, is further ahead of it in that it takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.

(iii) SA 250 does not define stakeholders. NOCLAR is related to affect of non-compliance on investors, creditors, employees as also the general public.

(iv) As per NOCLAR, in exceptional circumstances, the chartered accountant might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted. This provision is not existent in SA 250.

3. **NOCLAR**

Shri Limited, a listed Company, having its registered office at Mumbai is engaged in manufacturing of various types of yarns to be supplied to the textile mills. The Company has installed pollution control equipment for processing the pollutants so that before discharge of effluents outside the factory, the level of pollution is kept at a level below the prescribed standard. The company managed to get the pollution clearance certificate by unfair means, while still there continues to be breach of pollution control laws in matters of discharge of polluting effluents. The amount of ₹ 18.75 Lacs had been incurred for arranging clearance certificate and the amount incurred unlawfully had been booked as pollution recycling expenditure. The matter had not reached those in governance, and the Director-Finance, who is a Chartered Accountant, came to know of these matters on review of major expenditure incurred during the period. Comment on the action/responses expected of Director – Finance (CA Gopal) referring to any applicable requirements of Responses for NOCLAR under Code of Ethics. **(MTP-Nov-2024, MTP-May-2025, SM)**

Ans. In the given situation, Shri Limited, a listed company, has installed pollution control equipment for processing the pollutants to keep the level of pollution below the prescribed standard. The company managed to get pollution certificate by unfair means whereas breach of pollution control laws still continues. For arranging clearance certificate amount of ₹ 18.75 lacs had been incurred unlawfully. CA Gopal, Director Finance, came to know about these matters on review of the same during the period.

NOCLAR, under Code of Ethics, is applicable on chartered accountants in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than Audit.

It is applicable to key managerial personnel in service, being employees of listed entities. Key managerial personnel in service includes directors.

NOCLAR takes into account non-compliance that causes substantial harm resulting in serious consequences in financial or non-financial terms.

As per NOCLAR, in exceptional circumstances, the chartered accountant might become aware of an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the company, the accountant shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to

prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted.

CA Gopal, Director-Finance is expected of taking the following action/responses:

- Obtaining an understanding of the Matter.
- Addressing the matter.
- Seeking advice.
- Determining whether further action is needed.
- Determining whether to disclose the matter to an Appropriate Authority.
- Imminent breach.
- Documentation.

4. **NOCLAR**

F&F Associates, Chartered Accountants, are appointed as the statutory auditors of TOR Limited, an unlisted company, for the financial year 2024-25. The net worth of the company has remained at ₹500 crores for last 2 years. CA F is the engagement partner for the audit of the company. During the audit, CA F became aware of an imminent breach of law that would cause substantial harm to investors, creditors and employees of the company. He discussed this matter with Mr. X, who was one of the senior-most directors of the company and who also happened to be a Chartered Accountant. He is of the view that it is the responsibility of Mr. X, being a senior professional accountant, to respond to such non- compliance of law. However, Mr. X is of the view that there is no responsibility casted on him for responding to the aforesaid non- compliance. In view of the following:

(i) Comment on the contention of Mr. X in terms of relevant section of Revised Code of Ethics.

(ii) What documentations are required to be prepared by CA F, regarding non-compliance observed, over and above the requirements under the applicable Standards on Auditing. **(Sept-2025)**

Ans. **Responding to Non-compliance with Laws and Regulations (NOCLAR) applicable to Chartered Accountants in Service**

(i) NOCLAR, under Code of Ethics, is applicable on chartered accountants in service, and in practice. Among those in practice, it applies to Auditors, as well as professional services other than audit. It is applicable to Chartered Accountants in service, being KMP of listed entities. KMP includes directors.

In the given case, TQR Limited is an unlisted company, consequently, the provision of section 260 of NOCLAR is not applicable to Mr. X who is a senior-most director of the company and a Chartered Accountant. Thus, contention of the Mr. X that there is no responsibility cast on him for responding to the non-compliance is correct.

(ii) Documentation Requirements in NOCLAR to be prepared by CA F, regarding non-compliance observed, over and above the requirements under the applicable Standards on Auditing:

- How management / those charged with governance have responded to the matter.
- The course of action the accountant considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the accountant is satisfied that the responsibility of public interest has been fulfilled.

5. **NOCLAR & Intimidation Threat**

CA A & Associates, Chartered Accountants, have been appointed as the statutory auditors of LMN Limited for the financial year ending 31st March, 2026. LMN Limited is a listed company whose shares are listed on a recognised stock exchange in India, and its net worth as on 31st March, 2026 is ₹300 crore.

During the course of the audit, CA A came across information that the company was planning to discharge untreated chemical waste into a nearby river to reduce operating costs. The proposed activity would result in an imminent breach of environmental laws and may cause substantial harm to the public and nearby communities.

CA A discussed the matter with the management. However, the Managing Director instructed him not to disclose the matter to any authority, stating that it may adversely affect the reputation of the company. He further threatened that the audit firm would be removed from the engagement if CA A proceeded further with the matter.

With reference to the provisions of the Code of Ethics:

(i) Explain whether the provisions relating to NOCLAR under Section 360 apply to CA A in the above situation.

(ii) Discuss the responsibility of CA A in relation to the imminent breach of law or regulation.

(iii) Identify and explain the ethical threat faced by CA A. **(Nov-2026)**

19.2 - Important Provisions of Chartered Accountant,1949

Section-2(2) -Members Deemed to be in Practice

6. **Management Consultancy and Other Services**

Mr. A, a practicing Chartered Accountant agreed to select and recruit personnel, conduct training programmes for and on behalf of a client. Is this a professional misconduct? **(SM)**

Ans. **Providing Management Consultancy and Other Services:**

(i) **Provision:-** As per **Section 2(2)(iv) of the Chartered Accountants Act, 1949,** a member of the Institute shall be **deemed "to be in practice"**:

- When **individually or in partnership** with Chartered Accountants in practice,
- He, in consideration of **remuneration received or to be received**
- **Renders such other services as**, in the opinion of the Council, are or **may be rendered by a Chartered Accountant in practice.**
- **Pursuant to Section 2(2)(iv)** above, the Council has passed a resolution **permitting a Chartered Accountant in practice** to render entire range of **"Management Consultancy and other Services"**.

(ii) **Definition- Management Consultancy and other Services:-** The definition of the expression "Management Consultancy and other Services" **includes Personnel recruitment and selection**. Personnel Recruitment and selection includes, **development of human resources including** designing and conduct of training programmes, work study, job description, job evaluation and evaluations of workloads.

(iii) **Conclusion:-** There is **no misconduct on part of Mr. A**, as personnel recruitment and selection is covered under management consultancy and other services.

7. **Advising on Portfolio Management Services**

P, a Chartered Accountant in practice provides management consultancy and other services to his clients. During 2024, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients. Is P guilty of professional misconduct? **(SM)**

Ans. **(i)** **Provision:-** The Council of the Institute of Chartered Accountants of India (ICAI) pursuant to **Section 2(2)(iv) of the Chartered Accountants Act, 1949** has passed a resolution permitting "Management Consultancy and other Services" by a Chartered Accountant in practice.

(ii) A **clause of the aforesaid resolution passed by council allows Chartered Accountants in practice:**

- To **act as advisor or consultant** to an issue of securities including
- **Such matters as**:- Drafting of prospectus, filing of documents with SEBI, preparation of publicity budgets, advice regarding selection of brokers, etc.
- It is, however, specifically stated that **Chartered Accountants in practice are not permitted** to undertake the activities of **broking, underwriting and portfolio management services**. Thus, a chartered accountant in practice is not permitted to manage portfolios of his clients.

(iii) In the given case:- Mr. P has started **advising his clients on portfolio management** along with other management consultancy services related to an issue.

(iv) Conclusion:- Therefore, **Mr. P would be guilty of misconduct under the Chartered Accountants Act, 1949 as a chartered accountant in practice is not permitted to manage portfolios of his clients.**

8. Registered Valuer

CA. Gyan is a Chartered Accountant in practice and also an engineer by qualification. He wants to pursue a registered valuer course and work as a registered valuer for plant and machinery under the Companies Act, 2013. Comment on above with reference to provisions of the Chartered Accountants Act, 1949.

(MTP-May-2024, SM)

Ans.

(i) Provision & Interpretation:

(a) As per section 2(2)(iv) of the Chartered Accountants Act, 1949,

- a member of the Institute shall be deemed "to be in practice"
- when individually or in partnership
- with the Chartered Accountants in practice or in partnership with members of such other recognised professions as may be prescribed, he, in consideration of remuneration received or to be received
- renders such other services as, in the opinion of the Council, are or may be rendered by a Chartered Accountant in practice.

(b) Pursuant to section 2(2) (iv) above, the **Council has passed a resolution permitting** a Chartered Accountant in practice to render entire range of **"Management Consultancy and other Services" which**, inter alia, **includes** rendering **services of 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.

In this regard, such rules qualify Chartered Accountants for valuation of the securities or the financial Assets only and not for the Plant and Machinery. Therefore, valuation of plant and machinery does not form part of Management Consultancy and other services permitted by the council.

(c) Further, **in accordance with resolution passed under Regulation 190A of the Chartered Accountant Regulations, 1988,** members in practice are generally **permitted for attending classes and appearing for any examination.** There is **no need to take prior permission of ICAI in this regard.**

Therefore, it is generally **permitted** for a **member in practice to attend classes and appear for any examination, and** accordingly, **doing** the **Registered valuer course** would be deemed as permissible.

(ii) Conclusion: Hence, keeping in view above and in terms of the provisions of the Chartered Accountants Act, 1949 and Code of Ethics, it is **not permissible for a Chartered Accountant in practice to work as an Engineer/ valuer in plant & machinery simultaneously.**

9. Management Consultancy Services

Aditya & Co., a firm of Chartered Accountants in practice has been approached by Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country. Scope of work of the same includes reviewing the efficiency of operations, utilisation of funds, quality of training imparted and suggesting measures for improvement. In this context, the partners of the firm are concerned about the permissibility of accepting such an engagement. Would accepting this assignment amount to a service prohibited for members in practice under the Chartered Accountants Act, 1949?

(RTP-Jan-2026)

Ans. As per the recent decisions taken by the Ethical Standards Board of ICAI, it is permissible for members in practice to engage in the services assessment/performance audit of the centres of skill development council

of Government of India as these are permissible under Management Consultancy and other services issued under section 2(2)(iv) of the Chartered Accountants Act, 1949.

In the given case, Aditya & Co., a firm of Chartered Accountants in practice has been approached by the Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country. The scope of work includes reviewing the efficiency of operations, utilization of funds, quality of training imparted, and suggesting measures for improvement.

Thus, from above it can be concluded that Aditya & Co. can accept the offer given by the Skill Development Council of Government of India to conduct an assessment and performance audit of its various training centres across the country.

10. **Management Consultancy and other Services**

CA Rudra, a Chartered Accountant in practice, was approached by Jin Ltd. to assist the company in improving its internal operations. The company requested him to review its existing organisational structure, prepare job descriptions for various positions, evaluate the workload of employees and design an appropriate employee incentive scheme. CA Rudra agreed to provide these services for a professional fee. He was not appointed as the statutory auditor or internal auditor of Jin Ltd.

Examine whether acceptance of such assignment by CA Rudra amounts to professional misconduct.

(MTP-Nov-2026)

Ans. Pursuant to Section 2(2)(iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of "Management Consultancy and other Services". The expression "Management Consultancy and Other Services" includes Organization structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of workloads and setting up executive incentive plans, wage incentive plans etc.

Since the services proposed to be rendered by CA Rudra fall within the permissible scope of Management Consultancy and Other Services, he is permitted to undertake the assignment. Therefore, CA Rudra is not guilty of professional misconduct for accepting and rendering these services.

11. **Secretary**

CA Raj, a practicing chartered accountant, is offered to take up an appointment as a "Secretary" in his professional capacity by the Central Government for a Metro Project for a term of 2 years not on a salary-cum-full-time basis. After giving deep thought to the offer, CA Raj accepted the appointment. Comment in terms of the Chartered Accountant Act, 1949 and Schedules thereto. **(May-2024, SM)**

Ans. **(i) Provision:**

(a) **As per Section 2(2)(iv) of the Chartered Accountant Act, 1949 as amended from time to time,**

- a member of the Institute shall be deemed 'to be in practice'
- when individually or in partnership
- with Chartered Accountants in practice, or in partnership with members of such other recognized professional as may be prescribed,
- he, in consideration of remuneration received or to be received,
- renders such other services as, in the opinion of the Council, are or may be rendered by a Chartered Accountant in practice.

(b) **As per Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949,**

- a Chartered Accountant in practice is deemed to be **guilty** of professional misconduct
- **if he engages in any business or occupation**
- **other than the profession of Chartered Accountant**
- **unless permitted by** the **Council** so to engage.

However, the **Council** of the Institute is **empowered to permit** chartered accountants in practice to **engage in any other business or occupation** considered fit and proper.

(c) Accordingly, the Council formulated **Regulations 191 to the Chartered Accountants Regulations, 1988 specifying** the **activities with which** a **member in practice can associate himself with or**

without the permission of the Council. As per Regulation 191 a Chartered Accountant in practice **may take up an appointment** that may be **made by** the **Central Government or a State Government or a court of law or any other legal authority** or **may act as** a **secretary** in his professional capacity, **provided his employment is not on a salary-cum-full-time basis".**

(ii) In the instant case, CA Raj, a practicing chartered accountant has been appointed as a "Secretary" in his professional capacity by the Central Government for a metro project for a term of 2 years not on a salary-cum- full-time basis.

(iii) Conclusion: In view of above, in the given scenario, CA Raj will **not** be **held liable for misconduct** for acceptance of appointment as Secretary **in terms of compliance of Regulations 191 read with Clause (11) of Part I of First Schedule of Chartered Accountants Act, 1949.**

12. **Representative for taxation matters**

CA Ram, a practicing chartered accountant, is well known for his expertise in handling Goods and Services Tax (GST) cases at the GST Tribunal and he does not provide any assurance services. Given his long- standing reputation in the field, CA Ram is approached by DEF Limited to file an appeal in the Tribunal against a GST demand of ₹ 6 crore, which was imposed by the Commissioner (Appeals), and to represent DEF Limited in the matter. CA Ram offers to accept a fee of ₹ 3,50,000 for filing the appeal and pleading at the GST Tribunal.

Comment on the act of CA Ram in terms of the Chartered Accountant Act, 1949 and Schedules thereon.

(MTP-Nov-2024)

Ans. **(i) Provision:**

(a) **Under Section 2(2)(iv) of the Chartered Accountants Act, 1949,**

- a member of the Institute shall be deemed "to be in practice"
- when individually or in partnership
- with Chartered Accountants in practice,
- he, in consideration of remuneration received or to be received
- renders such other services as, in the opinion of the Council, are or may be rendered by a Chartered Accountant in practice.

(b) **Pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949, read with Regulation 191 of Chartered Accountants Regulations, 1988**

- a member shall be deemed to be in practice
- if he, in his professional capacity and neither in his personal capacity nor in his capacity as an employee,
- acts as representative for taxation matters.

(ii) **In the given situation:** CA Ram, a practicing Chartered Accountant, provides non-assurance services. He is approached by DEF Limited, a non-audit client, to file an appeal in GST Tribunal against GST Demand of ₹ 6 crore, which was imposed by the Commissioner (Appeals) and to plead on behalf of DEF Limited in the matter. CA Ram offers to accept the case and agrees to charge fees of ₹ 3,50,000

(iii) **Conclusion:** Therefore, CA Ram is not guilty of professional misconduct.

13. **S.2(2) - MCS**

CA Neha, a Chartered Accountant in practice, is approached by Growtech Ltd., a startup company planning to raise capital through an Initial Public Offering (IPO). The company requests her assistance in guiding them through the selection of advertising agencies, co-ordinating with bankers and brokers to issue. Besides helping the company as an advisor, she also underwrote the public issue of the company to the extent of 23% at a commission of 1%. She contends that provisions of code of conduct are not binding such services. Do you agree with the view of CA Neha ? Analyse the facts and give your comments in the light of applicable code of conduct.

(Sept-2025)

Ans.

The Council of the Institute of Chartered Accountants of India (ICAI) pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 has passed a resolution permitting a Chartered Accountant in practice to render entire range of "Management Consultancy and other Services".

A clause of the aforesaid resolution allows Chartered Accountants in practice to act as advisor or consultant to an issue, including preparation of publicity budget, advice regarding arrangements for selection of

(i) ad-media,

(ii) centres for holding conferences of brokers, investors, etc.,

(iii) bankers to issue,

(iv) collection centres,

(v) brokers to issue,

(vi) underwriters and the underwriting arrangement, distribution of publicity and issue material including application form, prospectus and brochure and deciding on the quantum of issue material.

It is, however, specifically stated that Chartered Accountants in practice are not permitted to undertake the activities of broking, underwriting and portfolio management services.

In the given situation, CA. Neha, a practicing Chartered Accountant, is helping the company as an advisor, she also underwrote the public issue of the company Growtech Ltd., a startup company, to the extent of 20% at a commission of 1%. In view of Section 2(2)(iv) of the Chartered Accountants Act, 1949, contention of CA Neha that provision of Code of Conduct (Ethics) are not binding in providing such services is not correct.

Accordingly, CA Neha is permitted to provide the services of advisor or consultant to an issue as part of Management Consultancy and other Services under section 2(2)(iv) of the Chartered Accountants Act, 1949.

However, CA Neha would be held guilty of professional misconduct under the Chartered Accountants Act, 1949 for underwriting the public issue of the Company.

Section-6 - Certificate of Practice

14. **Undertaking Tax Representation Work**

A Chartered Accountant in practice has been suspended from practice for a period of 6 months. During the said period, though he did not undertake the audit assignment since he had surrendered certificate of practice, he had appeared before Income Tax authorities in his capacity as a Chartered Accountant. **(SM)**

Ans.

(i) **Provision:- Section 6 of CA Act, 1949,** requires that no member of the Institute shall be **entitled to practice** unless he has obtained from **the Council a certificate of practice**.

(ii) **In the present case:-** A chartered accountant not holding certificate of practice cannot take up any other work because it would amount to violation of the relevant provisions of the Chartered Accountants Act, 1949.

- **In case a member is suspended** and is **not holding Certificate of Practice**, **he cannot in any other capacity take up any practice** separable from his capacity to practices as a member of the Institute.
- This is because **once a member becomes a member of the Institute**; he is bound by the provisions of the **Chartered Accountants Act, 1949 and its Regulations**. If he appears before the income tax authorities, he is only **doing so in his capacity as a chartered accountant** and a member of the Institute.

(iii) **Conclusion:-** Thus in the instant case, **a chartered accountant would not be allowed to represent before the income tax authorities for the period he remains suspended.**

Section-27 - Maintenance of Branch Offices

15. **Maintenance of Branch Office in Same City**

Mr. G, a Chartered Accountant in practice as a sole proprietor has an office in Mumbai near Church Gate. Due to increase in professional work, he opens another office in a suburb of Mumbai which is approximately 80

kilometers away from his existing office. For running the new office he employs three retired Income-tax Officers. Is Mr. G guilty of professional misconduct? **(SM)**

Ans.

(i) **Provision:- As per section 27 of the Chartered Accountants Act, 1949,** if a chartered accountant in practice has **more than one office in India**; each one of these offices should be in the **separate charge of a member** of the Institute.

(ii) **2nd office Exemption:-** There is however an exemption for the above

- **If the second office is located in the same premises**, in which the **first office** is located; or
- The **second office** is located **in the same city**, in which the first office is located; or
- The **second office** is located within a **distance of 50 kms** from the **municipal limits of a city**, in which the first office is located.

(iii) **Conclusion:-** Since the **second office is situated beyond 50 kms of municipal limits of Mumbai city. Thus, he would be liable for committing a professional mis-conduct.** (Answer given assuming distance >50 KM from municipal limits of Mumbai city as well)

16. **Maintenance of Separate Office**

Dheer & Co., a sole proprietary Chartered Accountancy firm, has its office in a busy commercial area of the city. Since a substantial number of its clients are located in an industrial cluster situated 26 kilometres from the firm's office, CA Dheer, the proprietor, finds it difficult to attend to their consultancy requirements regularly. Accordingly, he opens a facilitation centre in the industrial cluster for providing services to such clients.

The proprietor himself manages both the existing office and the facilitation centre. However, no intimation regarding the facilitation centre, including the declaration of the main office, is made to the Institute of Chartered Accountants of India. Examine, with reference to the provisions of the Chartered Accountants Act, 1949, whether CA Dheer would be held liable for any professional misconduct. **(MTP-Nov-2026)**

OR

Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city, had great difficulty in regularly attending to the consultancy needs of his clients who are mostly located in an industrial cluster in a nearby outskirt which is situated at a distance of 26 kms from the office of the firm. To mitigate the difficulty and to have ease of business, a facilitation centre was opened in the industrial cluster. The proprietor managed, both the office and the facilitation centre, by himself. No intimation was made to the Institute of Chartered Accountants of India. Examine whether there is any professional misconduct in this respect. **(MTP-May-2025)**

Ans.

As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a member can be in charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 kilometers from the municipal limits of a city, in which the first office is located.

Further a member having two offices of the type referred to above, shall have to declare which of the two offices is his main office, which would constitute his professional address.

In the present case, Dheer & Co., a sole proprietary Chartered Accountancy firm in practice with an office in a busy belt of a city and had great difficulty in regularly attending to the consultancy needs of his clients. Therefore, a facilitation centre was opened in the industrial cluster and the proprietor is managing both the office and facilitation centre. The facilitation centre at the industrial cluster is situated 26 kilometres from CA Dheer's existing office. Therefore, the distance is within the prescribed limit of 50 kilometres, and he may be in charge of both offices himself. However, he is required to comply with the prescribed requirement of intimating the Institute regarding the offices and declaring which of them is his main office/professional address.

Since CA Dheer has not made the requisite intimation to the Institute and has also not declared his main office, he would be liable for professional misconduct in this respect.

19.3 - Schedules to the CA Act, 1949 (Professional & Other Misconduct)
First Schedule Part I – Professional Misconduct in Relation to Members in Practice

Schedule – 1, Part – 1, Clause – 1

17. **Allowing Others to use Firm's Name**

CA. Sudeep, a newly qualified Chartered Accountant holding Certificate of Practice, approached CA. Suraj, the statutory auditor of his father's company Kings Ltd., to allow him to gain some practical and professional knowledge and experience in his firm before he can set up his own professional practice.

CA. Suraj allowed him to sit in his office for 6 months and allotted a small chamber with other office infrastructure facility. During his association with CA. Suraj's office, he used to provide tax consultancy independently to the client of the firm and also filed few IT and GST returns and represented himself before various tax authorities on behalf of the firm although no documents were signed by him. During his association in CA. Suraj's office, he did not get any salary or share of profit or commission but only re-imbursement of usual expenses like conveyance, telephone etc. was made to him. After the end of the agreed period, he was given a lump sum amount of ₹ 4,00,000 by CA. Suraj for his association out of gratitude. Comment in terms of the Chartered Accountant Act, 1949 and Schedules thereto. **(MTP-Sept-2025)**

Ans. Clause (1) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct if he allows any person to practice in his name as a chartered accountant unless such person is also a chartered accountant in practice and is in partnership with or employed by him.

The above clause is intended to safeguard the public against unqualified accountant practicing under the cover of qualified accountants. It ensures that the work of the accountant will be carried out by a Chartered Accountant who may be his partner, or his employee and would work under his control and supervision.

In the instant case, CA. Suraj allowed CA. Sudeep (who is a newly qualified CA. professional with COP) to sit in his office for 6 months and allowed him to provide tax consultancy independently to his firm's clients, filing of some IT and GST Returns. He also allowed him to appear before various tax authorities on behalf of his firm. CA. Sudeep was only reimbursed with his usual expenses and was not paid any salary or share of profit for the same. However, after the end of agreed period he was given a lump-sums of ₹ 4,00,000 for his association out of gratitude.

Thus, in the present case CA. Suraj will be held guilty of professional misconduct as per Clause (1) of Part I of the First Schedule to the Chartered Accountants Act, 1949 as he allowed CA. Sudeep to practice in his name as Chartered accountant and CA. Sudeep is neither in partnership nor in employment with CA. Suraj.

18. **Allowing to Practice in a Chartered Accountant's name**

Mr. C, Chartered Accountant, in practice allowed his brother-in-law Mr. P who is not a Chartered Accountant, to practice in the name of CA. C. He also allowed ***CA. T*** who is employee in his firm to practice in the name. Whether Mr. C is correct in allowing his brother-in-law Mr. P and ***CA. T*** employee of his firm to practice in his name. **(SM)**

Ans. **(i) Provision:**

- **As per Clause (1) of Part I to the First Schedule to Chartered Accountants' Act, 1949,**
- a Chartered Accountant in practice is deemed to be guilty of professional misconduct
- if he allows any person to practice in his name as a chartered accountant
- unless such person is also a chartered accountant in practice
- and is in partnership with or employed by him.

(ii) In the given situation

CA.C, Chartered Accountant who is in practice allowed a non-Chartered Accountant his brother-in-law Mr. P to practice in the name of CA. C is not correct in view of Clause 1 of Part I to the First Schedule. However, he can allow ***CA. T*** who is employee in his firm to practice in his name.

(iii) Conclusion: Thus, CA. C will be **held guilty of professional misconduct** for allowing Mr. P who is not a Chartered Accountant to practice in his name as a chartered accountant **as per Clause (1) of Part I to the First Schedule.** *(If employee is considered to be a CAiP than it is permitted)*

Schedule – 1, Part – 1, Clause – 2

19. **Sharing of Audit Fees with Non-Member**

K, a practicing Chartered Accountant gave 50% of the audit fees received by him to L, who was not a Chartered Accountant, under the nomenclature of office allowance and such an arrangement continued for a number of years. **(SM)**

Ans.

(i) **As per Clause:- Clause (2) of Part I of First Schedule to the Chartered Accountants Act, 1949**

A member shall be held guilty if a Chartered Accountant in practice **pays or allows or agrees to pay or allow**, directly or indirectly, **any share, commission or brokerage** in the fees or profits of his professional business, to **any person other than**

- a member of the Institute or
- a **partner** or
- a **retired partner** or
- the **legal representative** of a deceased partner, or
- a member of any other **professional body** or
- With such other persons having **such qualification** as may be prescribed, for the purpose of rendering such professional services from time to time **in or outside India**.

(ii) **In the given case**:- Mr. K, a practicing Chartered Accountant gave **50% of the audit fees received by him to Mr. L, who was not a Chartered Accountant,** under the nomenclature of office allowance and such an arrangement continued for a number of years .

(iii) **Fact of case:-** In this case, **it is not the nomenclature to a transaction that is material but it is the substance of the transaction**, which has to be looked into.

(iv) **Conclusion**:- The Chartered Accountant had shared his profits and, therefore, **Mr. K will be held guilty** of professional misconduct under the **Clause (2) of Part I of First Schedule** to the Chartered Accountants Act, 1949.

20. **Sharing Fees with an Articled Clerk**

Mr. Chetan qualified as a Chartered Accountant on 18 July 2026 and commenced practice on 15 August 2026. On 16 August 2026, a candidate approached him for engagement as an articled assistant. While agreeing to pay the stipend prescribed by the ICAI, Mr. Chetan also offered the candidate 1% of the profits of his CA firm as an additional payment. The candidate accepted both the prescribed stipend and the 1% share of profits. Subsequently, the ICAI objected to the payment of 1% of the firm's profits. Mr. Chetan replied that the additional payment was being made only to financially support the articled assistant, whose financial position was weak.

Is Mr. Chetan liable to professional misconduct? **(SM, MTP-Nov-2026)**

Ans.

As per Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In view of the above, the objections of the Institute of Chartered Accountants of India, as given in the case, are correct and reply of Mr. Chetan, stating that he is paying 1 % profits of his firm over and above the stipend to help the articled clerk as the position of the articled clerk is weak is not tenable.

Hence, Mr. Chetan is guilty of professional misconduct in terms of Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949.

21. **Sale of Goodwill/Sale of Practice by Widow of Deceased Member**

Mr. Qureshi, Chartered Accountant, in practice died in a road accident. His widow proposes to sell the practice of her husband to Mr. Pardeshi, Chartered Accountant, for ₹ 5 lakhs. The price also includes right to use the

firm name - Qureshi and Associates. Can widow of Qureshi sell the practice and can Mr. Pardeshi continue to practice in that name as a proprietor? **(SM)**

Ans. **Sale of Goodwill:** With reference to Clause (2) of Part I to the First Schedule to Chartered Accountants' Act, 1949, the Council of the Institute of Chartered Accountants of India considered whether the goodwill of a proprietary concern of chartered accountant can be sold to another member who is otherwise eligible, after the death of the proprietor.

It lays down that the sale is permitted subject to certain conditions discussed in the above flowchart. It further resolved that the legal heir of the deceased member has to obtain the permission of the Council within a year of the death of the proprietor concerned.

Conclusion: Thus, in a given case, the widow of Mr. Qureshi, who has proposed to sell the practice for ₹ 5 lakhs is in effect proposing the sale of goodwill. Thus, the act of Mrs. Qureshi is permissible and Mr. Pardeshi can continue to practice in that name as a proprietor.

22. **Sharing Professional Receipts with Others**

A CA obtained a loan from a finance company for purchase of office building agreeing to pay interest at 6% p.a. and 10% of his gross professional receipts till the loan is repaid.

Ans.

(i) **As per Clause:- Clause (2) of Part I of First Schedule to the Chartered Accountants Act, 1949**

A member shall be held guilty if a Chartered Accountant in practice **pays or allows or agrees to pay or allow**, directly or indirectly, **any share, commission or brokerage** in the fees or profits of his professional business, to **any person other than**

- a member of the Institute or
- a **partner** or
- a **retired partner** or
- the **legal representative** of a deceased partner, or
- a member of any other **professional body** or
- with such other persons having **such qualification** as may be prescribed, for the purpose of rendering such professional services from time to time **in or outside India**.

(ii) **In the given case**:- In substance the CA has **agreed to share his receipt** with a finance company from whom he has taken a loan, which is not permitted.

(iii) **Conclusion:-** Mr. K will be deemed to be **guilty of professional misconduct** under Clause 2 of Part I of First Schedule.

23. **Sharing of fees**

CA A, the proprietor of A & Collegues, Chartered Accountants, is developing his practice and recently secured a major audit assignment for B state Cooperative Society. The engagement fee for this audit is ₹ 1 Cr.

In view of his vision of growth to expand the development of his business, CA A has entered into an agreement with an unregistered financial consultant, Mr. X, who is an MBA from a local university. Mr. X introduced CA A to his business clients and in return, CA A agrees to pay him a 2.5% commission (₹ 2.5 lakhs) on the audit fee as a referral bonus.

Additionally, as per the State Cooperative Registrar's Circular, 5% of the audit fee (₹ 5,00,000) has to be deposited into the State Treasury to cover administrative expenses. CA A complies with this requirement.

Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(May-2025)**

Ans. As per Clause (2) of Part I to the First Schedule to Chartered Accountants' Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

The exception to this rule is specified in regulation 53A (3). The Regulation specifies that a Master in Business Administration from Universities established by law or technical institutions recognized by the All India Council for Technical Education. In the given situation, Mr. X is an MBA from a local university and CA. A agrees to pay commission on the audit fee as a referral bonus to Mr. X for introducing him to his business clients. Hence, CA A is guilty of misconduct.

Additionally, as per the State Cooperative Registrar's Circular, 5% of the audit fee (₹ 5 Lakh) must be deposited into the State Treasury to cover administrative expenses. Council decided that as such, there is no bar in the Code of Ethics to accept such an assignment wherein a percentage of the professional fee is deducted by the Government to meet the administrative and other expenditure. Hence, no violation is there.

Schedule – 1, Part – 1, Clause – 6

24. **Publishing an Advertisement Containing Photograph**

An advertisement was published in a Newspaper containing the photograph of Mr. X, a member of the institute wherein he was congratulated on the occasion of the opening ceremony of his office. **(SM)**

Ans.

(i) **As per Clause**:- **(6) of Part I of First Schedule** to the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct **if he solicits clients or professional work**

- either **directly or indirectly** by circular, advertisement, personal communication or
- **interview or by any other means**

(ii) **In the given case**:- Mr. X published an advertisement in a Newspaper containing his photograph on the occasion of the opening ceremony of his office.

(iii) **Analysis of the case:-** On this context, it may be noted that the advertisement which had been put in by the **member is quite prominent**. If soliciting of work is allowed, the **independence and forthrightness of a Chartered Accountant** in the discharge of duties cannot be maintained. The above therefore **amounts to soliciting professional work by advertisement** directly or indirectly.

(iv) **Conclusion:-** Mr. X would be therefore held guilty under **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949.

25. **Soliciting Professional Work**

Mr. X, a Chartered Accountant and the proprietor of X & Co., wrote several letters to the Assistant Registrar of Co-operative Societies stating that though his firm was on the panel of auditors, no audit work was allotted to the firm and further requested him to look into the matter. **(SM)**

Ans.

(i) **As per Clause**:- **(6) of Part I of First Schedule** to the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct **if he solicits clients or professional work**

- either **directly or indirectly** by circular, advertisement, personal communication or
- **interview or by any other means**

(ii) **In the given case**:- Mr. X, a Chartered Accountant and proprietor of M/s X and Co., **wrote several letters** to the Assistant Registrar of Co-operative Societies, requesting for allotment of audit work.

(iii) **Case study**:- In similar cases it was held that the **Chartered Accountant would be guilty of professional misconduct under Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949. The writing of **continuous letter to ascertain the reasons for not getting the work is quite alright** but in case such either amount to request for allowing the work then Mr. X will be liable for professional misconduct.

(iv) **Conclusion:-** Mr. X would therefore be held **guilty under Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949.

26. **Soliciting Work Directly or Indirectly**

M, a practicing Chartered Accountant sent a letter to another firm of Chartered Accountants, claiming himself to be a pioneer in liasoning with Central Government Ministries and its allied Departments for getting various Government clearances for which he had claimed to have expertise and had given a list of his existing clients and details of his staff etc.

Ans.

(i) **As per Clause**:- **(6) of Part I of First Schedule** to the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct **if he solicits clients or professional work:**

- either **directly or indirectly** by circular, advertisement, personal communication or
- **interview or by any other means**

(ii) **As per Central Council Guidelines:-** For Advertisement for the members in practice, write up of the members **should not claim superiority over any other Member(s)**/Firm(s) and should also not include the **names of the clients**.

(iii) **In the present case**:- Mr. M, a practicing Chartered Accountant **sent the letter to another firm of Chartered Accountants,** claiming himself to be a **pioneer in liasoning with Central Government Ministries and its allied Departments** for getting various Government clearances for which he had claimed to have expertise and had also given a list of his existing clients and details of his staff etc. which seems to be **indirect methods to adventure their professional practice with a view to gain publicity and thereby solicit clients or professional work.**

(iv) **Conclusion:-** Hence, Mr. M was **guilty of professional misconduct** as per Clause (6) of Part I of First Schedule of the Chartered Accountants Act, 1949.

27. **Responding to Quotations**

M/s. CDR & Associates is one of the three firms shortlisted by JDB Cooperative Bank for assignment of Statutory Audit for the F.Y 2024-25. The bank mailed the list of branches to the audit firms along with the maximum fee per branch and asked them to submit the quotations. CDR & Associates responded to the bank and submitted their quotation. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. **(MTP-Sept-2025)**

Ans.

As per Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting -

(i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

(ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

However, as per the guideline issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for chartered accountants, such as audit and attestation services. However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

In the given case, JDB Cooperative Bank circulated a list of branches to audit firms, specifying the maximum fee per branch. In response, CDR & Associates submitted their quotation. As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, and the Guidelines issued by the Council of ICAI, such a response is not permitted, since the assignment relates to audit services exclusively reserved for Chartered Accountants, and only a maximum fee (not minimum) was prescribed. Accordingly, the concerned responsible partner of CDR & Associates, being a Chartered Accountant in practice, shall be held guilty of professional misconduct for responding to such a quotation.

28. **Responding to Tenders**

M/s LMN, a firm of Chartered Accountants responded to a tender from a State Government for computerization of land revenue records. For this purpose, the firm also paid ₹ 50,000 as earnest deposit as part of the terms of the tender. **(SM)**

Ans.

(i) **As per Clause**:- **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949 a CA is permitted to respond to tenders. Further Appendix 'K' on Guidelines on Tenders lays down guidelines for responding g to tenders, etc.

(ii) **As per the guidelines**

A member of the institute is practice **shall not respond to any tender issued by an organization or user of professional services in areas of services which are exclusively reserved for chartered accounts such as audit and attestation services.** However, such restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

(iii) **Conclusion**:- Since **computerization of land revenue records does not fall within exclusive areas for chartered accountants,** M/s **LMN can respond to tender as well as deposit ₹ 50,000 as earnest deposit** and shall **not have committed any professional misconduct.**

29. **Tender**

Mr. Ajit, a practicing Chartered Accountant, started a coaching institute for CA aspirants in Delhi. He displayed large hoardings across the city stating: "Coaching by CA Ajit – Also Undertaking Audit, Tax Audit and Attestation Assignments. Contact for Professional Services."

He also circulated pamphlets in nearby commercial areas inviting businesses to appoint him as statutory auditor.

Further, CA Ajit responded to a tender floated by a listed company for statutory audit work. The tender document did not prescribe any minimum fee. Furthermore, audit and attestation services were exclusively reserved for Chartered Accountants.

Examine whether CA Ajit is guilty of professional misconduct under the Chartered Accountants Act, 1949. Give reasons. **(RTP-May-2026)**

Ans.

Advertisement through Hoardings and Pamphlets: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice from soliciting clients or professional work either directly or indirectly by circular, advertisement, personal communication, interview or by any other means.

In the present case, CA. Ajit displayed hoardings advertising his audit and attestation services. He also circulated pamphlets inviting businesses to appoint him as statutory auditor.

Such acts clearly amount to direct solicitation by advertisement and circular, which is expressly prohibited. Further, as per Council Guidelines, advertisement of coaching/teaching activities in a manner that indirectly promotes professional practice (e.g., linking coaching with audit services) amounts to indirect solicitation and is also violative of Clause (6).

Although a member may display a signboard outside coaching premises mentioning the name of the institute, contact details and subjects taught, large hoardings promoting professional services are not permitted.

Responding to Tender for Statutory Audit: Clause (6) permits a member to respond to tenders or enquiries issued by users of professional services.

However, as per Council Guidelines a member shall not respond to any tender in areas exclusively reserved for Chartered Accountants (such as audit and attestation services), unless the tender document prescribes a minimum fee, or the services are open to other professionals also.

In the given case, the tender is related to statutory audit which is exclusively reserved for Chartered Accountants. Also, minimum fee was not prescribed in the tender document.

In view of above, CA Ajit is guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 for directly and indirectly solicitation of professional work through hoardings and pamphlets and responding to the tender for statutory audit.

30. **Prohibition on Solicitation of Work**

A partner of a firm of chartered accountants during a T.V. interview handed over a bio-data of his firm to the chairperson. Such bio-data detailed the standing of the international firm with which the firm was associated. It also detailed the achievements of the concerned partner and his recognition as an expert in the field of taxation in the country. The chairperson read out the said bio-data during the interview. Discuss whether this action by the Chartered Accountant would amount to misconduct or not. **(SM)**

Ans.

(i) **As per Clause**:- **(6) of Part I of First Schedule** to the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct **if he solicits clients or professional work**

- either **directly or indirectly** by circular, advertisement, personal communication or
- **interview or by any other means** since it shall constitute professional misconduct.

(ii) **In the present case:-**The bio-data was handed over to the chairperson during the T.V. interview by the Chartered Accountant which included details about the firm and the achievements of the partner as an expert in the field of taxation. The chairperson simply read out the same in detail about **association with the international firm as also the achievements of the partner and his recognition as an expert in the field of taxation.** Such an act would definitely lead to the promotion of the firms' name and publicity thereof as well as of the partner and as such the handing over of bio -data cannot be approved.

(iii) **Conclusion:-** The **partner would be held guilty of professional miscount** under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949. ***[Clause 7 may be additionally referred]***

31. **Representation Rights**

A special notice has been issued for a resolution at 4th annual general meeting of TRIM Ltd., providing expressly that CA. Lucky shall not be re-appointed as an auditor of the· company. Consequently, CA. Lucky submitted a representation in writing to the company with a request to circulate to the members. In the detailed representation, CA. Lucky included the contributions made by him in strengthening the control procedures of the company during his association with the company and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the company. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(MTP-May-2024, SM)**

Ans. **Soliciting Clients:**

(i) **Provision:**

(a) **As per Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949,**

- a Chartered Accountant in practice is deemed to be guilty of professional misconduct
- if he solicits clients or professional work
- either directly or indirectly
- by circular, advertisement, personal communication or interview or by any other means
- except applying or requesting for or inviting or securing professional work from another Chartered Accountant in practice
- and responding to tenders.

(b) Further, **section 140(4)(iii) of the Companies Act, 2013,** provides a right, to the retiring auditor, to make representation in writing to the company. The retiring auditor has the right for his representation to be circulated among the members of the company and to be read out at the meeting. However, the content of letter should be set out in a dignified manner how he has been acting independently and conscientiously through the term of his office and may, in addition,

indicate, if he so chooses his willingness to continue as auditor, if re- appointed by the shareholders.

(ii) Interpretation :

The **proposition** of the **auditor to highlight contributions made by him in strengthening** the **control procedures in** the **representation** should **not be included** in such representations because the representation letter should **not** be prepared in a manner **to seek publicity.**

Thus, highlighting contributions made by him in strengthening the control procedures, while submitting representation u/s 140(4)(iii) of the Companies Act, 2013 **would amount to canvassing or soliciting for his continuance as auditor.**

(iii) Conclusion:

Therefore, CA. Anoop will be **held guilty of professional misconduct under Clause (6) of Part I of First Schedule to the Chartered Accountants Act, 1949.**

32. **Securing Professional Work**

Mr. Honest, a Chartered Accountant in practice, wrote two letters to M/s XY Chartered Accountants a firm of CAs; requesting them to allot him some professional work . As he did not have a significant practice or clients he also wrote a letter to M/s ABC, a firm of Chartered Accountants for securing professional work. Mr. Clever, an CA, informed ICAI regarding Mr. Honest's approach to secure the professional work. Is Mr. Honest wrong in soliciting professional work? **(SM)**

Ans.

(i) As per Clause:- **(6) of Part I of First Schedule** to the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct **if he solicits clients or professional work:**

- either **directly or indirectly** by circular, advertisement, personal communication or
- **interview or by any other means**

(ii) Exception:-

- Provided that **nothing herein contained shall be construed as preventing or prohibiting** any Chartered Accountant from **applying or requesting** for or **inviting or securing** professional work from another chartered accountant in practice.
- Such a restraint has been put so that the members **maintain their independence of judgment** and may be able to command respect from their prospective clients.

(iii) In the given case:- Mr. Honest **wrote letters only to other Chartered Accountants**, M/s XY and M/s ABC requesting them to allot some professional work to him, which is not prohibited under Clause (6) as explained above.

(iv) Conclusion:- Mr. Honest is **not wrong in soliciting professional work** from another CA, hence there is **no professional misconduct.**

33. **Soliciting Professional Work**

Mr. S, a Chartered Accountant published a book and gave his personal details as the author. These details also mentioned his professional experience. **(SM)**

Ans. **Soliciting Professional Work:**

Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 refers to professional misconduct of a member in practice if he solicits client or professional work either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means. Therefore, members should not adopt any indirect methods to advertise their professional practice with a view to gain publicity and thereby solicit clients or professional work. Such a restraint must be practiced so that members may maintain their independence of judgement and may be able to command the respect of their prospective clients. While elaborating forms of soliciting work, the Council has specified that a member is not permitted to indicate in a book or an article, published by him, his association with any firm of chartered accountants.

In this case, Mr. S, a Chartered Accountant published the book and mentioned his professional experience in detail in the same.

Conclusion:

Mr. S being a chartered accountant in practice has committed the professional misconduct by mentioning his professional experience.

34. **Educational Video**

Puran, a practicing Chartered Accountant, uploaded educational videos on accounting and auditing topics on YouTube for the benefit of students and young professionals. In these videos, he introduced himself as a Partner in Puran & Associates, Chartered Accountants and displayed the firm's website address and his contact details in the description of the videos. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(RTP-Jan-2026)**

Ans. As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means.

The Council has further clarified that certain acts may amount to solicitation, including the use of Educational Videos. While members are permitted to upload videos of educational nature on the internet, no reference should be made to website of the Chartered Accountants Firm wherein the member is a partner/ proprietor. Further, it may contain contact details, email ID, phone number or name of firm.

In the given case, CA Puran has uploaded educational videos on accounting and auditing topics on YouTube for the benefit of students and young professionals wherein he introduced himself as a Partner in Puran & Associates, Chartered Accountants. He also displayed the firm's website address and his contact details in the description of the abovementioned videos.

In light of the above, it is evident that CA Puran's actions i.e., display of the firm's website in the video description constitute solicitation of professional work. Thus, CA Puran would be held guilty for professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

35. M/s. Arora & Taneja, a firm of Chartered Accountants with four partners, has recently been recognized for its strong commitment to professional development and community service. During the F.Y. 2024–25, the following instances came to light during a peer review:

(1) Support to ICAI Programme Organizing Unit (PoU):

The firm contributed funds to the "Financial Reporting Update Seminar" organized by one Program Organising Unit of the ICAI. The event had prior approval from the CPE Directorate, and the firm's name was included among the sponsors in the official ICAI circular and event signage.

(2) CSR Activity by Partner:

One of the partners, CA Anjali Taneja, personally financed a Clean Water Drive under her company's CSR initiative. The posters and banners displayed the following:

"An initiative supported by CA Anjali Taneja (Partner, Arora & Taneja)" (Firm's logo displayed at the bottom corner of the banner)

Analyse the professional and ethical implications of the above situations in light of the ICAI Code of Ethics.

(Jan-2026, MTP-Nov-2026)

Ans. Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 refers to professional misconduct of a member in practice if he solicits client or professional work either directly or indirectly, by circular, advertisement, or personal communication or interview or by any other means.

There are some forms of soliciting work which the council has prohibited, which includes Sponsoring Activities:

- Member in practice or a Firm of Chartered Accountants is not permitted to sponsor an event. However, such member or Firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI, provided such event has the prior approval of Continuing Professional Education (CPE) Directorate of the ICAI. Where Council permitted sponsorship from members / Firms, the deliverables permitted to them in lieu of the said sponsorship will also be issued.
- Members sponsoring activities relating to Corporate Social Responsibility may mention their individual name with the prefix "CA". However, the mention of Firm name or CA Logo is not permitted.

(1) In the given situation, M/s. Arora & Taneja, a firm of Chartered Accountants, contributed funds to the "Financial Reporting Update Seminar" organized by one Program Organising Unit of the ICAI with prior approval from the CPE Directorate. Therefore, M/s Arora & Taneja shall not be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 since member or firm may sponsor an event conducted by a Programme Organizing Unit (PoU) of the ICAI with the prior approval of Continuing Professional Education (CPE) Directorate.

(2) In the given situation, CA Anjali Taneja, a partner of firm who personally financed a clean water drive under her company's CSR initiative, displayed the name, designation and Firm Logo in the posters and banners at the bottom corner of the banner. Therefore, she will be held guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 as members sponsoring activities relating to CSR may mention their individual name with the prefix "CA" but mention of Firm name or CA Logo is not permitted.

Council Guidelines for Advertisement, 2008: Website

36. **Hosting Details on Website**

M/s XYZ, a firm of Chartered Accountants created a website "www.xyzindia.com". The website besides containing details of the firm and bio -data of the partners also contains the photographs of all the partners of the firm. **(SM)**

Ans.

(i) As per guidelines of the ICAI:-

- As per detailed **guidelines of the ICAI** laid down in **Clause (6) of Part I of the First Schedule** to the Chartered Accountants Act, 1949, a chartered accountant of the firm can create its own website using any format subject to guidelines.
- **The guidelines of the ICAI to allow a firm to put up**:- The details of the firm, bio -data of partners and display of a passport style photograph.

(ii) Conclusion:- In the case of M/s XYZ, **all the guidelines seem to have been complied** and there appears to be **no violation** of the Chartered Accountants Act, 1949 and its Regulations.

Schedule – 1, Part – 1, Clause – 7

37. **Advertisement of Professional Attainment**

B, a Chartered Accountant in practice is a partner in 3 firms. While printing his personal letter heads, B gave the names of all the firms in which he is a partner. **(SM)**

Ans.

(i) As per Clause:- **clause (7) of Part I of First Schedule** of the Chartered Accountant Act, 1949,

A CA in practice is deemed to be **guilty of professional misconduct if he**

(i) **advertises** his professional attainments or services or

(ii) uses any **designation or expressions** other than **'Chartered Accountant"** on professional documents, visiting cards, letter heads or sign boards

(iii) **Unless it be a degree of a university**

- established by **law in India** or
- recognized by the **Central Government** or
- a title indicating **membership of the ICAI** or

- of any other institution that has been **recognized by the Central Government** or
- may be **recognized by the council**.

(ii) In the instant case:- Mr. Adnan, a Chartered Accountant in practice, is a partner of 4 firms and while printing his personal letter heads, he gave the names of all the firms in which he is partner.

(iii) Conclusion:- Mr. Adnan is **not guilty of any professional misconduct** in the above case.

38. **Advertise through a write up**

CA Vinit, a practicing Chartered Accountant, after attending various courses in Data Analytics and Artificial intelligence designates as "AI Professional" in his visiting cards and letter heads. He wants to advertise through a write up, setting out the professional services provided by him and consequently he has included the basic details such as his name, membership number, professional address, website, email, details of employees and various services provided. In the Profile section of write up, he includes the following details:

(i) Disclosure of client MNP Ltd.'s turnover figures from recent audit as '₹ 500 crores audited' to show case expertise in large-scale statutory audits.

(ii) A mention of the 'Outstanding Accountant of the Year 2025' award received from the local Rotary Club in the previous year;

(iii) The firm's tagline "Precision in Every Calculation" which CA Vinit believes is an honest description of his work.

Analyze and comment whether the act of CA Vinit is in compliance with the guidelines and provisions of the Chartered Accountants Act, 1949. **(May-2026)**

Ans. As per Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he advertises his professional attainments or services or uses any designation or expressions other than "Chartered Accountant" on professional documents, visiting cards, letterheads or sign boards, except as permitted under the Act and the Guidelines issued by the Council.

However, the proviso to the clause permits advertisement through a write-up setting out the services provided and particulars of the member or firm subject to the ICAI Guidelines for Advertisement, 2008.

In the given case, CA Vinit has circulated a write-up containing his name, membership number, professional address, website, email address, employee details and services provided. Such particulars are specifically permitted under the ICAI Advertisement Guidelines, 2008. Further, mention of website, employee details and services rendered is permissible under the list of particulars allowed in the write-up. Hence, inclusion of these details is in compliance with the Guidelines.

Further, CA Vinit describes himself as an "AI Professional" after attending various courses in Data Analytics and Artificial Intelligence. Under Clause (7), use of designations other than "Chartered Accountant" is generally prohibited unless it is a recognized qualification or title permitted by ICAI. The expression "AI Professional" is not a recognized qualification approved by ICAI or the Central Government. Therefore, use of such expression on visiting cards and letterheads may amount to violation of Clause (7) of Part I of the First Schedule.

Furthermore, disclosure of client MNP Ltd.'s turnover figure of ₹ 500 crores audited by him is not permissible. ICAI Advertisement (Write-up) Guidelines specifically permit disclosure of client name with permission of the client. Moreover, disclosure of turnover details obtained during professional engagement breaches client confidentiality and may amount to professional misconduct under Clause (1) of Part I of the Second Schedule, which prohibits disclosure of confidential information acquired in the course of professional engagement without client consent or legal requirement.

In addition to above, mention of the "Outstanding Accountant of the Year 2025" award received from the local Rotary Club is also not permissible. ICAI Advertisement (Write-up) Guidelines prohibit inclusion of information regarding achievements or awards except those given by the Central Government, State

Government or Regulatory Bodies. Since the award has been granted by a local Rotary Club, its inclusion violates the Guidelines and consequently attracts Clause (7) of Part I of the First Schedule relating to impermissible advertisement of professional attainments.

Similarly, the tagline "Precision in Every Calculation" is not permissible. ICAI Advertisement (Write-up) Guidelines specifically prohibit use of monograms, catch words or similar promotional expressions. The tagline used by CA Vinit is a promotional catch phrase and therefore violates the Guidelines, thereby attracting Clause (7) of Part I of the First Schedule.

Accordingly, while inclusion of basic professional particulars and services rendered is permissible under the ICAI Advertisement Guidelines, use of the expression "AI Professional", disclosure of client turnover details, mention of Rotary Club award and use of the promotional tagline are not in compliance with the Chartered Accountants Act, 1949 and the ICAI Advertisement Guidelines, 2008.

39. **Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto in the following situation:**

Mr. Raman is a Chartered Accountant in practice holding a Certificate of Practice. He is also enrolled as an advocate after obtaining the requisite permission from the Bar Council. While appearing before the High Court in a tax litigation matter, he files the vakalatnama and appears using the designation "CA Raman, Chartered Accountant & Advocate." He also uses both designations on his visiting card and letterhead for his advocacy practice. **(RTP-Nov-2026)**

Ans. As per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he (i) advertises his professional attainments or services or (ii) uses any designation or expressions other than 'Chartered Accountant" on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a university established by law in India or recognized by the Central Government or a title indicating membership of the ICAI or of any other institution that has been recognized by the Central Government or may be recognized by the council.

Further, members of the Institute in practice who are otherwise eligible may practise as advocates subject to the permission of the Bar Council but in such case, they should not use designation 'Chartered Accountant' in respect of the matters involving the practice as an advocate. In respect of other matters, they should use the designation 'Chartered Accountant' but they should not use the designation 'Chartered Accountant' and 'Advocate' simultaneously.

In the present case, CA Raman, by appearing before the High Court and filing the vakalatnama as "CA Raman, Chartered Accountant & Advocate," and by printing both designations together on his visiting card and letterhead, has used a designation other than "Chartered Accountant" in a matter of his advocacy practice, and has combined both titles impermissibly. He is therefore guilty of professional misconduct under Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.

40. **Using Designation Other Than a CA and Providing Details of Services Offered**

Mr. Nigal, a Chartered Accountant in practice, delivered a speech in the national conference organized by the Ministry of Textiles. While delivering the speech, he told to the audience that he is a management expert and his firm provides services of taxation and audit at reasonable rates. He also requested the audience to approach his firm of chartered accountants for these services and at the request of audience he also distributed his business cards and telephone number of his firm to those in the audience. Comment. **(SM)**

Ans. **(i)** **As per Clause**:- **(6) of Part I of First Schedule** to the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct **if he solicits clients or professional work:**

- either **directly or indirectly** by circular, advertisement, personal communication or
- **interview or by any other means**

Such a restraint has been put so that the members **maintain their independence of judgment** and may be able to command respect from **their prospective clients.**

(ii) **As per Provision:-Section 7 of the Chartered Accountants Act,** 1949 read with **Clause (7) of Part I of the First Schedule to** the said Act prohibits **advertising of professional attainments or services** of a member. It also restrains a member from using any designation or expression **other than that of a chartered accountant** in documents through which the professional attainments of the member would come to the notice of the public.

(iii) **As per Guidelines**:- Issued under **clauses 6 & 7 permits** a practicing member to **give lectures at forums** and may **give their names and describe themselves** as Chartered Accountants, but **no reference should be made**, to the name and address or services of **his firm**.

(iv) **In the present case:-** Mr. Nigal uses the designation of **"Management Expert"** and also made reference to the services provided **by his firm** of Chartered Accountants at reasonable rates and distribute business cards to audience.

(v) **Conclusion:-** Mr. Nigal will be held **guilty of professional misconduct** under **clauses 6 & 7 of Part I of First Schedule** to the CA Act 1949 due to solicitation of professional work and advertisement of services rendered by his firm.

41. **Professional Attainments in Offer Document**

The offer document of a listed company in which Mr. D, a practicing Chartered Accountant is a director mentions the name of Mr. D as a director along with his various professional attainments and spheres of specialization **(SM)**

Ans. **(i)** **As per ICAI Council :-**

- The Council of the ICAI has in a **communication to members** stated that if a **public company**, in which a chartered accountant in practice **is a director**, issues a prospectus or gives any announcement that gives descriptions about the Chartered Accountant's **expertise, specialisation and knowledge** in any particular field, it shall constitute a **violation of Clauses (6) and (7) of Part I of the First Schedule** to the Chartered Accountants Act, 1949.
- The Council has further stated that in such cases the member concerned has to **take necessary steps to ensure that** such prospectus or public announcements or public communications **do not advertise his professional attainments** and
- Also that such prospectus or public announcements or public communications **do not directly or indirectly amount to solicitation of clients** for professional work by the members.

(ii) **Conclusion:-** Thus in the instant case, **Mr. D would be held to be guilty of professional misconduct** and liable for disciplinary action.

Schedule – 1, Part – 1, Clause – 8

42. **Conditional Acceptance of Appointment**

(a) CD & Associates are appointed as Statutory Auditors of the Iron Company Ltd. The Central Government holds 74% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to CD & Associates for accepting the audit. CA Sunny, the engagement partner, communicated with the previous auditor but due to lack of time he had to give acceptance for the audit assignment before receiving a reply from the previous auditor. Hence CA Sunny gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the Schedules thereunder, whether CA Sunny has complied with same.

(Nov-2024, RTP-May-2025, MTP-Jan-2026, MTP-Nov-2026)

(b) If CA Yash is guilty of misconduct in the above situation given in part (a), then before which authority, the matters of CA Yash would have been placed and what punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949? **(RTP-May-2025)**

Ans. **(a)** As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Although the mandatory requirement of communication with previous auditor being Chartered Accountant applies, in uniform manner, to audits of both government and Non-Government entities, yet in the case of audit of government Companies/ banks or their branches, if the appointment is made well in time to enable the obligation cast under this clause to be fulfilled, such obligation must be complied with before accepting the audit. However, in case 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.

In the given case, CD & Associates are appointed as Statutory Auditors of the Iron Company Ltd. which is a government company as Central Government holds 74% of the paid-up share capital of the company and CA Sunny has given a conditional acceptance of the appointment and commenced the audit. In view of the above, it can be concluded that CA Sunny is not liable for misconduct and has complied with the provisions of the Chartered Accountants Act, 1949 and the Schedules thereunder.

(b) If CA Yash would have been found guilty of professional misconduct under Clause 8 of Part I of the First Schedule of the Chartered Accountants Act, 1949: The matter would have been placed before the Board of Discipline. The punishment that the Board of Discipline could have imposed would be:

(i) Reprimand the member.

(ii) Remove the name of the member upto a period of 3 months.

(iii) Impose fine upto rupees ₹ 1,00,000/-

43. **Communication with the Previous Auditor**

Mr. X, a Chartered Accountant accepted his appointment as tax auditor of a firm under Section 44AB, of the Income-tax Act1,961 and commenced the tax audit within two days of his appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, Mr. X realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement. Will Mr. X be held guilty under the Chartered Accountants Act? **(SM)**

Ans.

(i) As per Clause:- **Clause 8 of Part I of First Schedule** to the CA Act 1949

A chartered accountant in practice is deemed to be guilty of professional misconduct:

- If he accepts a position as auditor **previously held by another chartered accountant**
- **Without first communicating** with him in writing.

(ii) Interpretation of Clause:-

- The object of the incoming auditor communicating in writing with the retiring auditor is **to ascertain whether there are any circumstances** which warrant him **not to accept** the appointment,
- **For example**:- Whether the previous auditor has been **changed on account of having qualified the report** or he had expressed a wish not to continue **on account of something inherently wrong** with the administration of the business.
- The retiring auditor may even give out information regarding the **condition of the accounts of the client** or the reason that **impelled him to qualify his report**.
- **Under all circumstances,** it would be essential for the incoming auditor to carefully consider the facts before deciding **whether or not he should accept the audit**.
- As a matter of **professional courtesy and professional obligation** it is necessary for the new auditor appointed to communicate with such earlier auditor.
- This requirement would **apply to all types of audit i.e.** statutory audit, tax audit, internal audit, concurrent audit, etc.

- It is further provided that if time schedule given for the assignment is such that there is **no time to wait for the reply from the retiring auditor**, the incoming auditor **may give conditional acceptance** of the appointment and **can commence the work immediately** after he has sent the communication to the retiring auditor.

(iii) **In the given case:-** Mr. X has **commenced his work and thereafter he sent the letter** to the predecessor auditor.

(iv) **Conclusion:-Mr. X is guilty of professional misconduct** by virtue of clause 8 of Part I of First Schedule.

44. **Failure to Communicate with the Previous Auditor**

Can a practicing Chartered Accountant be held guilty of professional misconduct under the following circumstance: W, a chartered Accountant has sent letters under certificate of posting to the previous auditor informing him his appointment as an auditor before the commencement of audit by him. **(SM)**

Ans. **(i)** **As per Clause**:- **Clause 8 of Part I of First Schedule** to the CA Act 1949

A chartered accountant in practice is deemed to be guilty of professional misconduct:

- If he accepts a position as auditor **previously held by another chartered accountant** or a **certified auditor** who has been issued certificate under the **Restricted Certificates Rules 1932**
- **Without first communicating** with him in writing.

(ii) **Applicability of clause:-**

- This requirement would **apply to all types of audit** i.e. statutory audit, tax audit, internal audit, concurrent audit, etc.
- It is further provided that incoming auditor is required to **send his communication by Registered post acknowledgement due** or **by hand against an acknowledgement in writing**. Mere posting of a letter under certificate of posting is not sufficient to establish communication.

(iii) **Conclusion:- Mr. W will be Guilty of professional misconduct** by virtue of **clause 8 of Part I of first schedule** in accordance with which communication need to be sent "Registered Post Acknowledgement Due" or by "hand against a written acknowledgement".

45. **Professional Ethics**

Comment on the following scenario with reference to the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto.

Statutory Audit of Arihant Limited for the year 2021-22 was done by CA Acharya. Arihant Limited was in existence since 2010. The relevant extract from books of account of Arihant Limited are as below:

Particulars	As at 31.03.2023 (₹ in lakh) (Unaudited)	As at 31.03.2022 (₹ in lakh) (Audited)
Equity Share Capital	5.00	5.00
Reserve and Surplus	(10.00)	(8.00)
Provision for Audit Fees	For FY 2021-22- 1.00 For FY 2022-23- 1.00	1.00

(Figures in bracket indicates negative values)

CA. Nemi accepted the Statutory Audit of Arihant Limited for the year 2022-23 in spite of the fact that as on date of acceptance by CA Nemi, the audit fees of CA Acharya was unpaid.

Ans. **(i)** **Provision: As per Chapter IV of Guidelines on Ethical Issues 2026,** a member of the Institute in practice shall **not accept** the **appointment as auditor** of an entity **in case** the **undisputed audit fee of another Chartered Accountant** for carrying out the statutory audit under the Companies Act, 2013 or various other statutes **has not been paid:**

Provided that in the case of **sick unit**, the **above prohibition of acceptance shall not apply** where a sick unit is defined to mean "where the net worth is negative as at the end of any financial year accumulated losses equal to or exceeding its entire net worth.

(ii) Analysis: As per Explanation 1 of the Chapter IV Guidelines on Ethical Issues 2026, for the purpose, the provision for audit fee in accounts signed by both — the auditee and the auditor **along with other expenses,** if any, incurred by the auditor in connection with the audit, shall be considered as **"undisputed audit fees".**

(iii) Conclusion: In the instant case, though the undisputed fees are unpaid, CA Nemi would still **not be guilty of professional misconduct since the Arihant Limited is a sick unit having negative net worth for the year 2022-23.**

Schedule – 1, Part – 1, Clause – 9

46. **Compliance of Statutory Requirements Before Accepting Appointment**

CA Raja was appointed as the Auditor of Castle Ltd. for the year 2023-24. Since he declined to accept the appointment, the Board of Directors appointed CA Rani as the auditor in the place of CA Raja, which was also accepted by CA Rani. **(SM)**

Ans. **Appointment of Auditor by Board:** Board can appoint the auditor in the case of casual vacancy under section 139(8) of the Companies Act, 2013. The non-acceptance of appointment by CA Raja does not constitute a casual vacancy to be filled by the Board. In this case, it will be deemed that no auditor was appointed in the AGM.

Further, as per Section 139(10) of the Companies Act, 2013 when at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company. The appointment of the auditor by the Board is defective in law.

Clause (9) of Part I of First Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant is deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of section 225 of the Companies Act, 1956 (now Section 139, 140 and 142 read with Section 141 of the Companies Act, 2013), in respect of such appointment have been fully complied with.

Conclusion: Hence, CA Rani is guilty of professional misconduct since she accepted the appointment without verification of statutory requirements.

47. MNP Manufacturing Ltd., a listed company with a turnover of ₹ 2,500 crores, appointed three joint auditors: CA Anil & Associates, CA Raman & Co. and CA Reena & Associates to undertake the statutory audit of the company. The joint auditors divided the work amongst themselves in accordance with SA 299. CA Anil & Associates were responsible for fixed assets and related depreciation, CA Raman & Co. took the area of cash, bank and investments and CA Reena & Associates handled inventory and receivables.

At the Annual General Meeting held on 30th September 2025, the company decided not to reappoint CA Reena & Associates due to disagreements over certain audit observations regarding valuation of inventory. The shareholders passed a special resolution appointing CA Neha & Associates in place of CA Reena & Associates, while retaining the other two joint auditors - CA Anil & Associates and CA Raman & Co.

CA Neha accepted the appointment immediately upon receiving the company's appointment letter and a certificate regarding compliance of provisions of the Companies Act, 2013. However, she later discovered that the company had not sent any special notice to the shareholders regarding her appointment as required under the Companies Act, 2013. She also found that CA Reena & Associates had not been given an opportunity to make representations to the shareholders regarding her non-reappointment.

Analyze the professional conduct of CA Neha in light of the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(Jan-2026)**

Ans. As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he accepts a position as auditor previously held by another chartered

accountant or a certified auditor who has been issued certificate under the Restricted Certificate Rules, 1932 without first communicating with him in writing.

Further, as per Clause (9) of Part I of First Schedule to the Chartered Accountants Act, 1949, a CA in practice is deemed to be guilty of professional misconduct if he accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for the time being in force, in respect of such appointment have been duly complied with.

Under this clause it is obligatory on the incoming auditor to ascertain from the Company that the appropriate procedure in the matter of his appointment has been duly complied with so that no shareholder or retiring auditor may, at a later date, challenge the validity of such appointment.

For the purpose of ascertaining whether the Company has complied with the provisions of Section 140 of the Companies Act the incoming auditor should verify the records of the Company that whether a member of the Company has given special notice of the resolution as required under Section 140 (4) of the Companies Act, 2013 and to ensure that whether this special notice has been sent to all the members, of the Company as required under the Companies Act, 2013.

In the given case, CA Neha accepted the audit appointment immediately on receipt of the company's appointment letter and certificate of compliance, without first ensuring that proper professional communication had been made with the outgoing auditor, CA Reena & Associates, who was not reappointed due to disagreements over certain audit observations.

Therefore, CA Neha will be held guilty of professional misconduct under the Clause (8) and Clause (9) of Part I of First Schedule to the Chartered Accountants Act, 1949, if she accepts the appointment without communicating with previous auditor as well as for not verifying the compliance of statutory requirements.

Schedule – 1, Part – 1, Clause – 10

48. **Restriction on fees based on a Percentage**

Comment on the following with reference to the provisions of the Chartered Accountant Act 1949:

CA. Pankaj accepted professional work of acting as valuer under direct taxes. He charges fees on a percentage of the property valued. **(RTP-May-2024, SM)**

Ans. **(i) Provision:-**

(a) According to Clause (10) of Part I of First Schedule to the Chartered Accountants Act, 1949,

- a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct
- if he charges or offers to charge,
- accepts or offers to accept
- in respect of any professional employment fees
- which are based on a percentage of profits or which are contingent upon the findings, or results of such employment,
- except as permitted under any regulations made under this Act.

(b) However, **Regulation 192 exempts** Chartered Accountants in practice to charge fees based on a percentage of profits or contingent upon findings or results for professional work for certain professional services.

(c) Regulation 192 specifically states that in the case of a valuer for the purposes of direct taxes and duties, the fees may be based on a percentage of the value of the property valued.

(ii) Conclusion: Consequently, **CA. Pankaj shall not be deemed to be guilty of professional misconduct,** as he is within the permissible scope of charging fees based on a percentage of the property valued.

49. **Contingent Fees**

CA Kumar, a practicing-chartered accountant, is well known in the field of pleading of Income Tax cases at Income Tax Tribunal and does not provide any assurance services. Considering the long standing in the field,

CA Kumar is approached by XYZ Limited to file an appeal in the Tribunal against the Income Tax Demand of ₹ 10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter. CA Kumar offers to accept the case with the following fee structure:

The fees for filing an appeal and to plead at Income Tax Tribunal will be higher of the following (a) or (b):

(i) ₹ 5,00,000/-

(ii) 10% of Tax Demand Reduced.

Comment on the act of CA Kumar in terms of the Chartered Accountant Act, 1949 and Schedules thereon.

(May-2024, SM)

Ans.

Restriction on Fees based on a Percentage:

(i) Provision:

(a) According to Clause (10) of Part I of First Schedule to the Chartered Accountants Act, 1949,

- a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct
- if he charges or offers to charge,
- accepts or offers to accept
- in respect of any professional employment fees
- which are based on a percentage of profits or which are contingent upon the findings, or results of such employment,
- except as permitted under any regulations made under this Act.

(b) However, Regulation 192 allow the Chartered Accountant in practice to charge the fees in respect of any professional work which are based on a percentage of profits, or which are contingent upon the findings or results of such work, in the case of a **non-assurance services to non-audit clients,** and the fees may be based on a percentage of Tax Demand Reduced.

(ii) In the given case:

- CA Kumar, a practicing Chartered Accountant, **provides non-assurance services.**
- He is **approached by** XYZ Limited, a non-audit client, to file an appeal in Tribunal against Income-tax Demand of ₹10 crore which was added by the CIT(A) and to plead on behalf of XYZ Limited in the matter.
- CA Kumar offers to accept the case and agrees to charge fees either ₹ 5,00,000 or 10% of Tax Demand reduced whichever is higher.

(iii) Conclusion: Therefore, **Mr. Kumar will not be held guilty of professional misconduct** since he is not providing any assurance services to non-audit client **pursuant to Regulation 192 read with Clause 10 of Part I of First Schedule.**

50. A practicing Chartered Accountant, Mr. P, is approached by a prominent retail chain to conduct "Mystery Audits" at their stores. The goal of the audit is to evaluate compliance with internal policies and service standards. Mr. P accepts the assignment and structures his professional fees to be contingent upon the number of operational lapses and non-compliances he identifies, with a higher fee for more significant findings.

Discuss whether Mr. P is guilty of professional misconduct under the Chartered Accountants Act, 1949, with specific reference to the relevant schedules. **(Jan-2026)**

Ans. According to Clause (10) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept in respect of any professional employment fees which are based on a percentage of profits or which are contingent upon the findings, or results of such employment, except as permitted under any regulations made under this Act.

Further, as per Recent Decisions of Ethical Standards Board, it is permissible for a member in practice to accept the assignment of Mystery Audit.

In the given case, Mr. P, a practicing Chartered Accountant, has accepted the assignment of Mystery Audit and structured his professional fees to be contingent upon the number of operational lapses and non-compliance he identifies, with higher fee for more significant findings. While acceptance of the Mystery Audit assignment per se is permissible, the fee arrangement being contingent upon the findings is not allowed.

Accordingly, Mr. P would be held guilty of professional misconduct under Clause (10) of Part I of the First Schedule to the Chartered Accountants Act, 1949 for charging fees which are contingent upon the findings.

51. **Contingent Fees**

CA Sameer, a Chartered Accountant in practice, has been appointed as the statutory auditor of XYZ Ltd. for the financial year 2025-26. While finalising the terms of his professional engagement, he proposes to charge a fixed statutory audit fee of ₹ 8 lakh. In addition, he proposes to charge a further fee equivalent to 2% of the amount by which the profit of XYZ Ltd. increases as a result of audit adjustments made during the course of the audit.

The management of XYZ Ltd. agrees to the proposal, stating that the additional amount would become payable only if the audit results in an increase in the reported profit.

Separately, CA Sameer is engaged by ABC Ltd., which is not his audit client, to provide litigation-support services in connection with a commercial dispute. For this assignment, he proposes to charge a fee which would become payable only upon the successful outcome of the litigation.

With reference to the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations, 1988, examine the permissibility of the above fee arrangements. **(MTP-Nov-2026)**

Ans. Clause (10) of Part I of the First Schedule to the Chartered Accountants Act, 1949 provides that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept, in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings or results of such employment, except as permitted by the Regulations.

Further, Regulation 192 of the Chartered Accountants Regulations, 1988 restricts a member in practice from charging fees based on a percentage of profits or fees contingent upon the findings or results of professional work, subject to the exceptions prescribed therein.

In the case of XYZ Ltd.: The fixed statutory audit fee of ₹8 lakh, by itself, is not objectionable. However, the additional fee of 2% of the increase in profit resulting from audit adjustments is directly linked to the findings/results of the statutory audit. The amount of fee would depend upon the extent to which the audit adjustments increase the reported profit.

Accordingly, such an arrangement is not permissible and would attract the prohibition contained in Clause (10) of Part I of the First Schedule, read with Regulation 192.

In the case of ABC Ltd.: The litigation-support assignment is a non-assurance service provided to a non-audit client. The proposed contingent fee in respect of such service is covered by the exception permitted under Regulation 192, subject to fulfilment of the conditions prescribed therein. Therefore, charging a fee contingent upon the successful outcome of this non-assurance assignment would not constitute professional misconduct under Clause (10).

Conclusion: The additional fee linked to the increase in profit from the statutory audit of XYZ Ltd. is not permissible. However, the contingent fee proposed for the litigation-support assignment for the non-audit client ABC Ltd. is permissible under the applicable exception in Regulation 192, subject to its prescribed conditions.

52. **Contingent Fees - Various Cases**

CA P, a practicing Chartered Accountant, entered into two separate professional engagements during the financial year :

(i) DL Manufacturing Ltd. engaged him to recover long-outstanding trade receivables from defaulting customers. The engagement letter provided that he would be paid 8% of the amount successfully recovered.

(ii) OZ Infrastructure Ltd. appointed him to represent the company in an appeal relating to a disputed tax demand. It was agreed that CA P would receive 5% of the amount of tax successfully saved if the appeal was decided in favour of the company.

A complaint was filed before the Institute alleging that, in both the engagements, CA P had accepted professional fees contingent upon the results of the engagement.

Examine whether CA P is guilty of professional misconduct in respect of each engagement. Also, explain the rationale behind the ethical requirement relating to such fee arrangements. Give reasons with reference to the relevant provisions of the Chartered Accountants Act, 1949 and the Chartered Accountants Regulations.

(Nov-2026)

Schedule – 1, Part – 1, Clause – 11

53. **Partnership with a Relative and Entering into Business**

A chartered accountant holding certificate of practice and having four articled clerks registered under him accepts appointment as a full -time lecturer in a college. Also he becomes a partner with his brother in a business. Examine his conduct in the light of Chartered Accountants Act, 1949 and the regulations thereunder.

(SM)

Ans.

(i) **As per Clause:- Clause (11) of Part I of the First Schedule** to the Chartered Accountants Act, 1949

- **Prohibits a member** in practice to engage in any business or occupation
- **Other than the profession** of chartered accountants
- **Unless permitted** by the Council so to engage.

(ii) **As per Clause:- Clause (4) of Part I to the First Schedule** to the Chartered Accountants Act, 1949 specifies that a chartered accountant in practice shall be deemed to be guilty of professional misconduct **if he enters into partnership:-**

- **In or outside India**, with any person **other than a chartered accountant in practice** or
- **Such other person** who is a member of any other **professional body having such qualifications** as may be prescribed, **including a resident** who but for his residence abroad would be entitled to be registered as a member or
- Whose qualifications are recognised by the **Central Government** or
- **The Council** for the purpose of permitting such partnerships; *(This clause reference is only recommendatory)*

(iii) **As per Regulation:- Regulations 190A and 191 to the Chartered Accountants Regulations, 1988**

- Provide a basis for considering applications of chartered accountants seeking permission to engage in other business or occupation.
- A member can accept full - time lecturer-ship in a college only after obtaining the specific and prior approval of the Council.

(iii) **In the present case:-** A CA in practice entered into **partnership with his brother** in a business. And accepts appointment as a **full time lecturer** in a college which requires prior approval from the Council of the ICAI.

(iv) **Conclusion:-** A CA in practice cannot engage in any business or occupation other than the profession of Chartered Accountant **unless permitted by the council so to engage**. Hence the **CA will be guilty as per regulations and under clause 4 & 11.**

54. **Other Occupation**

Mr. Amit is a practising chartered accountant based out of Pune. During the weekends, he was involved as a paper-setter for Accountancy subject in the school in which he studied. He also owned agricultural land and was doing agriculture during his free time. During the year 2023, heavy losses were incurred in agricultural activity due to natural calamities and misfortune, and he lost almost all of his wealth and became undischarged insolvent. After a few court hearings, finally, in the year 2025, he was declared discharged insolvent and obtained a certificate from the court stating that his insolvency was caused by misfortune without any misconduct on his part. You are required to comment on the above situation with reference to the Chartered Accountants Act, 1949 and Schedules thereto **(MTP-May-2024, MTP-May-2026)**

Ans. **Given situation can be visualised in following parts:**

(I) **Mr. Amit is involved in paper-setting for the Accountancy subject in the school where he studied. He also owns agricultural land and does agriculture activities:** As per Clause 11 of Part I of First Schedule of the Chartered Accountants Act and regulation 190A of Chartered Accountants Regulations, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of chartered accountant unless permitted by the Council so to engage.

Further, Regulation 190A mentions the 'Permissions granted Generally' to engage in a certain category of occupations, for which no specific permission of Council is required. Those cases include:

- Valuation of papers, acting as paper-setter, head examiner or a moderator, for any examination.
- Owning agricultural land and carrying out agricultural activities.

Therefore, in the given case, the activities of Mr. Amit as a paper-setter and involvement in agricultural activities do not make him guilty of professional misconduct.

(II) **Mr. Amit was discharged insolvent: Disabilities for the Purpose of Membership :** Section 8 of the Chartered Accountants Act, 1949 enumerates the circumstances under which a person is debarred from having his name entered in or borne on the Register of Members, If he, being a discharged insolvent, has not obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Here it may be noted that a person who has been removed from membership for a specified period shall not be entitled to have his name entered in the Register until the expiry of such period.

In addition, failure on the part of a person to disclose the fact that he suffers from any one of the aforementioned disabilities would constitute professional misconduct. The name of the person, who is found to have been subject at any time to any of the disabilities discussed in section 8, can be removed from the Register of Members by the Council.

In the given case, it is clearly stated that Mr. Amit was discharged insolvent, and he has also obtained from the court a certificate stating that his insolvency was caused by misfortune without any misconduct on his part. Hence, Mr. Amit has not violated the provisions of Section 8, and he is not debarred from having his name entered in the Register of Members.

55. **Director and Auditor**

Ring Limited is a subsidiary of Pearl Limited. For the financial year 2024-25 M/s Vani & Co., Chartered Accountants were appointed as the statutory auditors of Ring Limited. The CEO of Pearl Limited was impressed with the professional competence of CA Devi, one of the partners of the firm and hence, he offered CA Devi to take up the position of Director (not MD/whole time director) of Pearl Limited. CA Devi is in a dilemma whether to accept the offer. She approaches you and seeks your advice on the same. Advise what CA Devi can do with the offer with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(May-2025)**

Ans. Clause 11 of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of Chartered Accountants unless permitted by the Council so to engage.

Provided that nothing contained herein shall disentitle a Chartered Accountant from being a director of a Company, (not being a managing director or a whole-time director), unless he or any of his partners is interested in such a company as an auditor.

In view of above, a Chartered Accountant in practice cannot engage (unless permitted by the Council so to engage) in any business or occupation other that the profession of Chartered Accountant but he can be a director of a Company (not being a managing director or whole-time director) wherein he or any of his partners is not interested in such company as an auditor. 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 jeopardise their independence. In view of the above, the Board, via a clarification, decided that the auditor of a Subsidiary Company can't be a Director of its Holding Company, as it will affect the independence of the auditor.

In the given situation, Ring Limited is the audit client of CA Devi's firm (M/s Vani & Co.) and Pearl Limited is the holding company of Ring Limited. The CEO of Pearl Limited is offering CA Devi a non-executive directorship in Pearl Ltd., while her firm is the auditor of Ring Ltd. (a subsidiary). CA Devi should not accept the offer as it will affect the independence of an auditor.

56. **Specific Permission to be Obtained from Council**

Mr. A, a practicing CA, took over as the executive Chairman of a Software Company on 01.04.2024. On 10.04.2024 he applied to the Council for permission. **(SM)**

Ans.

(i) **As per Clause:- Clause (11) of Part I of the First Schedule** to the CA Act, 1949

- **A CA in practice cannot engage** in any business or occupation
- **Other than the profession** of chartered accountants
- **Unless permitted** by the Council so to engage.

(ii) **In the given case:-** Mr. A took over as the **executive chairman on 01.04.2015** and **applied for permission on 10.04.2015.** On the basis of these facts, he was engaged in other occupation between the period 01.04.2015 and 10.04.2015, **without the permission of the Council**

(iii) **Conclusion:- Mr. A is guilty of professional misconduct in terms** of **Clause (11) of Part I of First Schedule to the** Chartered Accountants Act, 1949.

57. **Engaging into a Business**

CA. Moksh, a leading income tax practitioner based in Mumbai with exceptional writing skills, also serves as the editor of a non-chartered accountancy-related journal. He devotes approximately 50% of his time to managing the journal's editorial responsibilities of the journal. Is CA. Moksh liable for professional misconduct? **(SM)**

Ans.

(i) **As per Clause:- Clause (11) of Part I of the First Schedule** to the CA Act, 1949

- **A CA in practice cannot engage** in any business or occupation
- **Other than the profession** of chartered accountants
- **Unless permitted** by the Council so to engage.

(ii) **Appendix 9 – CA Regulations, 1980 :-**

Institute has **granted general permission** to the members to engage in **certain specific occupation**. In respect of all other occupations **specific permission of the Institute is necessary**.

(iii) **In the present case:- CA. Moksh** is engaged in the occupation of trading in commodity derivatives which is not covered under the general permission.

(iv) **Conclusion:-** Hence, **specific permission of the Institute has to be obtained otherwise he will be deemed to be guilty of professional misconduct** under **Clause (11) of Part I of First Schedule of** Chartered Accountants Act, 1949.

58. **Engaging into Business/Profession Other Than the Profession of CA**

CA. Mansi is a leading Income Tax Practitioner in Delhi. She is very much fond of cooking. Due to this passion of her, she also wrote a cookery book "Delight your tummy" during the year. But, she didn't take any permission from the Council of the Institute for engaging herself into authorship of such book. Comment.

Ans.

(i) **As per Clause:- Clause (11) of Part I of the First Schedule** to the CA Act, 1949

- **A CA in practice cannot engage** in any business or occupation
- **Other than the profession** of chartered accountants
- **Unless permitted** by the Council so to engage.

(ii) General permission is granted under Regulation 190A for authorship of any book or article**..**

(iii) **In the given case:-** CA. Mansi has authored a cookery book for which no specific permission is required.

(iv) **Conclusion:-** Clause **11 permits authorship of any boo**k, hence **no misconduct arises on part of CA. Mansi.**

59. **Derivative Trading**

Ms. Lata, a practicing Chartered Accountant, is desirous of filling Multi-purpose Empanelment form (MEF) for inclusion of her name in panel for allotment of statutory audit of bank branches web hosted by Professional Development Committee (PDC) of ICAI for financial year 2024-25. The form requires applicants to upload XML files of their personal income-tax returns along with computation of income. During relevant year for which information is being sought for by PDC, CA Lata has transacted in futures and options derivatives (equity) and has reflected income from such transactions in her return of income as "Business Income". Analyse the above situation with reference to the provisions of the Chartered Accountants Act, 1949.

Would it make any difference if CA Lata had earned income from transacting in currency derivatives and commodity derivatives? **(MTP-May-2024, MTP-Nov-2024, MTP-Jan-2026)**

Ans.

Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he engages in any business or occupation other than the profession of Chartered Accountants unless permitted by the Council so to engage.

Provided that nothing contained herein shall disentitle a Chartered accountant from being a director of a Company, (not being a managing director or a whole - time director), unless he or any of his partners is interested in such company as an auditor.

Appendix 9 to CA Regulations 1988 state that it is permissible for a member in practice to engage in securities transactions provided in case of commodity transaction they are settled in cash. Such engagements in securities are not violative of provisions of Clause 11 of Part I of First Schedule to the Chartered Accountants Act, 1949. Further, members are allowed to transact and there is no requirement to take permission of Council in this matter.

Therefore, there is no difference if CA Lata had earned income from equity, currency or commodity (cash-settled) derivatives. Hence CA Lata would not be held guilty of professional misconduct for engaging in business other than profession of Chartered Accountancy.

60. **Trademark Attorney – ESB Decisions**

Mr. Rohan, a Chartered Accountant in full-time practice, is approached by a client who is commencing a new business. The client requests Mr. Rohan's assistance in registration of trademarks and patents for his brand and products. Mr. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949. Now, Mr. Rohan finds himself in a dilemma for providing such services. Comment. **(MTP-Sept-2025)**

Ans.

As per the recent decisions taken by the Ethical Standards Board of ICAI, a member in practice cannot act as Trademark or Patent Attorney. However, Professional advice in relation to Intellectual Property Rights (IPR) is a routine professional work for a Chartered Accountants in practice and same is permissible under the provisions of the Chartered Accountants Act, 1949.

In the given case, CA. Rohan agrees to support the client by filing applications and representing him as a Trademark Attorney before the Registrar of Trademarks. However, one of his senior partners reminds him that such activities may be restricted under the Chartered Accountants Act, 1949.

Thus, it can be concluded that the senior partner of CA. Rohan is correct as CA. Rohan's action of agreeing to act as a Trademark Attorney before the Registrar of Trademarks would amount to professional misconduct under the Chartered Accountants Act, 1949.

61. **Selling of Domain**

Comment on the following scenario with reference to the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto.

CA Sumati is a practicing chartered accountant having office in Mumbai. CA Sumati is owner of domain cap.net. In order to generate additional revenue CA Sumati sold this domain name to XYZ Limited for earning royalty of ₹ 2,25,000. One of the directors of XYZ Limited contended that CA Sumati has violated the Code of Conduct. CA Sumati responded that there is no violation of Code of Conduct as selling of domain name is not related to any professional assignment which requires approval of the Institute. **(MTP-Sept-2025)**

Ans.

(i) Provision:

(a) As per Clause (11) of Part I of Schedule I to the Chartered Accountants Act, 1949,

- a member in practice is deemed to be guilty if he engages in any business or occupation
- other than the profession of chartered accountant
- unless permitted by the Council so to engage.

(b) Provided that **nothing contained herein shall disentitle a chartered accountant from being a director** of a company (not being a managing director or a whole-time director) **unless he or any of his partners** is **interested in such company** as an auditor.

(c) As **per Regulation 190A**, a chartered accountant in practice **not to engage** in any **other business or occupation other than** the **profession of accountancy except** with the **permission granted** in accordance with a resolution of the Council.

(ii) In the given case,

- CA Sumati is a practicing chartered accountant having office in Mumbai.
- CA Sumati is owner of domain cap.net.
- In order to generate additional revenue, CA Sumati **sold** this **domain name for earning royalty** of ₹ 2,50,000 to XYZ Limited.
- One of the directors of XYZ Limited **contended that CA Sumati has violated** the **Code of Conduct.**
- CA Sumati responded that there is **no violation of Code of Conduct as selling of domain** name is **not related** to any **professional assignment which requires approval of the Institute.**
- As per Regulation 190A, the activity of selling domain name for earning Royalty would **amount to "other business/occupation"** without approval is prohibited.

(iii) Hence, **CA Sumati is guilty of professional misconduct under Clause 11 of Part I of Schedule I to the Chartered Accountants Act, 1949** for selling domain name for a royalty.

62. **Managing Director**

CA Shubh, a Chartered Accountant in practice specializing in the field of Information Systems Audit. He is considered to be one of the experts in this field because of his command over the subject. ZX Limited, a company engaged in rendering management consultancy offered him to appoint as its managing director. CA Shubh accepted the position of managing director without obtaining prior permission from the Institute. One of his friends, CA Varun informed him that now he cannot retain full time certificate of practice, thus cannot do attestation function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(MTP-Nov-2024, SM)**

Ans.

(i) Provision:

(a) As per Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949,

- a Chartered Accountant in practice will be deemed to be guilty of professional misconduct
- if he engages in any business or occupation
- other than the profession of the Chartered Accountant unless permitted by the Council so to engage.

(b) As per the Guidelines for Corporate Form of Practice, the **Council** has **allowed** the **members in practice to hold** the **office of Managing Director, Whole-time Director** or **Manager of** a body **corporate** within the meaning of the Companies Act, 2013 **provided that** the **body corporate** is **engaged exclusively** in rendering Management **Consultancy and Other Services** permitted by the Council in pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 **and complies with** the conditions(s) as specified by the Council from time to time in this regard.

The name of the Management Consultancy Company is required to be approved by the Institute and such a Company has to be registered with the Institute.

(c) The members **can retain a full-time Certificate of Practice** besides being the Managing Director, Whole-time Director or Manager of such management consultancy company.

(d) There will be **no restriction on** the **quantum of** the **equity holding** of the members, either individually and/ or along with the relatives, in such a company.

(e) Such members shall be **regarded as being in full-time practice** and therefore **can continue to do attest function** either in individual capacity or in Proprietorship/Partnership firm in which capacity they practice and wherein they are also entitled to train articled/audit assistants.

(ii) In the given case,

- CA Shubh, a Chartered Accountant specializing in Information Systems Audit and considered an expert in the field, was **offered the position of Managing Director** by ZX Limited, a management consultancy firm.
- He **accepted the role without obtaining prior permission from the Institute of Chartered Accountants of India.**

(iii) Conclusion: From the above provisions, it can be concluded that the action of CA Shubh is valid.

63. **Promoter Director & Sleeping Partner**

CA Yug, a practicing chartered accountant, is a promoter director of CDS Pvt. Ltd. and is also a sleeping partner in his family's garments manufacturing business. Is CA Yug liable for professional misconduct as per the Chartered Accountant Act, 1949? **(MTP-May-2025)**

Ans.

Clause (11) of Part I of the First Schedule to the Chartered Accountants Act, 1949 debars a chartered accountant in practice from engaging in any business or occupation other than the profession of chartered accountancy unless permitted by the Council of the Institute so to engage.

There is no bar for a member to be a promoter / signatory to the Memorandum and Articles of Association of any company. There is also no bar for such a promoter / signatory to be a Director Simplicitor of that company irrespective of whether the object of the company includes areas which fall within the scope of the profession of Chartered Accountants. Therefore, members are not required to obtain specific permission from the Council in such cases.

Further, members of the Institute in practice may engage after obtaining the specific and prior approval of the Council in case of interest in family business concerns (including such interest devolving on the members as a result of inheritance / succession / partition of the family business) or concerns in which interest has been acquired as a result of relationships and in the management of which no active part is taken.

In the given case, CA Yug is a promoter director of CDS Pvt. Ltd. and also, he is a sleeping partner in his family business of garments manufacturing firm. Applying the above to the given case, it can be concluded that, CA Yug:

- **As Promoter Director-** Not guilty of professional misconduct under the Chartered Accountants Act, 1949.

- **As Sleeping Partner-** Guilty of professional misconduct under the Chartered Accountants Act, 1949 as he did not obtain prior approval of the Council.

64. **Directorship and Auditor**

CA Ratan, a member in practice, is invited to join the Board of Directors of Sathi Co-operative Bank Ltd. as an Independent Director. The Bank assures him that the position is honorary, and he will not be involved in any day-to-day activity of the bank.

At the same time CA Mihir, one of the partners of CA Ratan, is approached by the Bank's management to conduct the statutory audit of the same Co-operative Bank for the current financial year. Comment on above with reference to provisions of the Chartered Accountants Act, 1949. **(MTP-Jan-2026)**

Ans. As per the recent decision taken by the Ethical Standards Board of ICAI, a member in practice may be a non-executive/independent director in a Co-operative Bank, provided he is not involved into day to day activity of the organisation, nor he or any of his partners are interested in the Bank as an auditor.

In the present case, CA Ratan, a member in practice, has been invited to join Sathi Co-operative Bank Ltd. as an Independent Director, and the position is honorary with no involvement in daily management. This is permissible, subject to the condition that neither he nor his partners undertake the audit of the same bank. However, the Bank's management has approached CA Mihir, a partner of CA Ratan, to conduct the statutory audit of the same Bank for the current year. As per abovementioned recent decision of Ethical Standards Board, if any partner of the firm is appointed as auditor, the member cannot simultaneously hold the position of independent/non-executive director in that same entity.

In view of the above, CA Ratan cannot accept or continue as an Independent Director if his partner, CA Mihir, accepts the statutory audit of the same Co-operative Bank. Conversely, if CA Ratan accepts directorship, the firm must decline the statutory audit assignment. Thus, both positions cannot be held simultaneously, and the firm should choose between the directorship and the audit engagement in order to comply with the decision of Ethical Standards Board of ICAI.

Schedule – 1, Part – 1, Clause – 12

65. **Allowing a Member not being a Partner to Sign Certificate**

CA. Smart, a practicing Chartered Accountant was on Europe tour between 15-9-24 and 25-9-24. On 18-9-24 a message was received from one of his clients ***requesting a*** stock certificate to be produced to the bank on or before 20-9-24. Due to urgency, CA. Smart directed his assistant, who is also a Chartered Accountant, to sign and issue the stock certificate after due verification, on his behalf. **(MTP-May-2025, SM)**

Ans.

(i) **As per Clause:- Clause (12) of Part I of the First Schedule to** the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct

- If he allows a person **not being a member of the Institute in practice** or
- A member **not being his partner** to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

(ii) **In the given case:-** CA. Smart **allowed his assistant who is not a partner** but a member of the Institute of Chartered Accountants of India to **sign stock certificate** on his behalf

(iii) **Conclusion:- CA. Smart is guilty of professional misconduct under** Clause (12) of Part I of First Schedule to the Chartered Accountants Act, 1949.

66. **Delegation of Authority to the Employee**

Mr. 'A' is a practicing Chartered Accountant working as proprietor of M/s A & Co. He went abroad for 3 months. He delegated the authority to Mr. 'Y' a Chartered Accountant his employee for taking care of routine matters of his office. During his absence Mr. 'Y' has conducted the under mentioned jobs in the name of M/s A & Co.

(i) He issued the audit queries to client which was raised during the course of audit.

(ii) He issued production certificate to a client under Central Excise Act, 1944.

(iii) He attended the Income Tax proceedings for a client as authorized representative before Income Tax Authorities.

Please comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s A & Co. and liability of Mr. 'A' under the Chartered Accountants Act, 1949. **(SM)**

Ans.

(i) **As per Clause:- Clause (12) of Part I of the First Schedule to** the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct

- If he allows a person **not being a member** of the Institute in practice or
- A member **not being his partner** to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

(ii) **In the given case**:- **CA. 'A' proprietor** of **M/s A & Co.**, went to abroad and delegated the authority to another Chartered Accountant **Mr. Y, his employee**, for taking care of routine matters of his office who is not a partner but a member of the Institute of Chartered Accountants.

(iii) **As per Council General Guidelines:-** The Council has clarified that the **power to sign routine documents** on which a **professional opinion or authentication** is not required to be expressed may be delegated in the **following instances and such delegation will not attract provisions of this clause like** issue of audit queries during the course of audit, asking for information or issue of questionnaire, attending to routing matters in tax practice, subject to provisions of Section 288 of Income Tax Act etc.

- **In the** ries which were raised during the course of audit. Here **"Y" is right in issuing the query,** since the same falls under routine work which can be delegated by the auditor. Therefore, there is no misconduct in this case as per Clause (12) of Part I of First schedule to the Act.
- Further, **issuance of production certificate to a client** under Central Excise Act, 1944 by Mr. "Y" being an employee of M/s A & Co. (an audit firm), is not a routine work and it is outside his authorities. Thus, **CA. 'A' is guilty of professional misconduct** under Clause (12) of Part I of First Schedule of the Chartered Accountants Act, 1949.
- In this instance, Mr. "Y", CA employee of the audit firm M/s A & Co. has attended the Income tax proceedings for a client as authorized representative before Income Tax Authorities. Since the council has allowed the delegation of such work, the **chartered accountant employee can attend to routine matter in tax practice** as decided by the council, subject to provisions of Section 288 of the Income Tax Act. Therefore, there **is no misconduct in this case** as per Clause (12) of Part I of First schedule to the Act.

67. **Delegation of Authority to the Articles & Staff**

CA. Suman, the auditor of KEY Pvt. Ltd. has delegated following works to his articles and staff:

i Raising of bills and issuing acknowledgements for money receipts.

ii Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

iii Signing financial statements of the company.

Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements? **(MTP-May-2026)**

OR

Mr. S, the auditor of ABC Pvt. Ltd. has delegated following works to his articles and staff:

i. Issue of audit queries during the course of audit.

ii. Issue of memorandum of cash verification and other physical verification.

iii. Letter forwarding draft observations/financial statements.

iv. Issuing acknowledgements for records produced.

v. Signing financial statements of the company.

Is this correct as per the Prof. Ethics & ICAI's guidelines & pronouncements?

(SM, RTP-May-2024, MTP-Jan-2026)

Ans.

As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he allows a person not being a member of the institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements.

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the following instances and such delegation will not attract provisions of this clause:

(i) Issue of audit queries during the course of audit.

(ii) Asking for information or issue of questionnaire.

(iii) Letter forwarding draft observations/financial statements.

(iv) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

(v) Acknowledging and carrying on routine correspondence with clients.

(vi) Issue of memorandum of cash verification and other physical verification or recording the results thereof in the books of the clients.

(vii) Issuing acknowledgements for records produced. Raising of bills and issuing acknowledgements for money receipts.

(ix) Attending to routine matters in tax practice, subject to provisions of Section 288 of Income Tax Act.

(x) Any other matter incidental to the office administration and routine work involved in practice of accountancy.

In the instant case, CA. Suman, the auditor of KEY Pvt. Ltd. has delegated certain task to her articles and staff such as raising of bills and issuing acknowledgements for money receipts, initiating and stamping of vouchers and of schedules prepared for the purpose of audit and signing financial statements of the company.

Therefore, CA. Suman is correct in allowing first two tasks i.e. raising of bills and issuing acknowledgements for money receipts, initiating and stamping of vouchers and of schedules prepared for the purpose of audit to her staff and articles.

However, if the person signing the financial statements on her behalf is not a member of the institute in practice or a member not being her partner to sign on her behalf or on behalf of her firm, CA. Suman is wrong in delegating signing of financial statements to her staff.

In view of this, CA. Suman would be held guilty of professional misconduct for allowing the person to sign the financial statements on her behalf to her articles and staff under Clause 12 of Part 1 of First Schedule of the Chartered Accountants Act, 1949.

68. **Power of Signing Reports and Financial Statements**

S, a practicing chartered accountant gives power of attorney to an employee chartered accountant to sign reports and financial statements, on his behalf. **(SM)**

Ans.

(i) **As per Clause:- Clause (12) of Part I of the First Schedule to** the Chartered Accountants Act, 1949

A Chartered Accountant in practice is deemed to be guilty of professional misconduct

- If he allows a person **not being a member** of the Institute in practice or
- A member **not being his partner** to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements".

(ii) **As per Provision:- Section 26 of the Chartered Accountants Act, 1949** stipulates that **no person other than the member** of the institute **shall sign any document** on behalf of a Chartered Accountant in practice or a firm of Chartered Accountants in his or its professional capacity.

- **The term 'Financial Statement'** for this purpose would cover an examination of the **accounts or financial statements** given under a statutory enactment or otherwise.

(iii) Conclusion:-S is guilty of professional misconduct under Clause (12) of Part I of First Schedule and also under **Clause (1) of Part II of Second Schedule for contravening Section 26.**

69. **Delegation of Authority to the Employee**

Mr. Jay is a practicing Chartered Accountant working as proprietor of M/s Adhya & Co. He went abroad for 4 months. He delegated the authority to Mr. Vijay a Chartered Accountant his employee for taking care of routine matters of his office. During his absence, Mr. Vijay has conducted the under mentioned jobs in the name of M/s Adhya & Co.

(i) Asking for information or issue of questionnaire.

(ii) Initiating and stamping of vouchers and of schedules prepared for the purpose of audit.

(iii) Acknowledging and carrying on routine correspondence with clients.

Comment on eligibility of Mr. Vijay for conducting such jobs in name of M/s Adhya & Co. and liability of Mr. Jay under the Chartered Accountants Act, 1949. **(MTP-Nov-2024)**

Ans. **(i) Provision:** As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949,

- a Chartered Accountant in practice is deemed to be guilty of professional misconduct
- "if he allows a person not being a member of the Institute in practice or a member not being his partner
- to sign on his behalf or on behalf of his firm,
- any balance sheet, profit and loss account, report or financial statements".

(ii) In this case:

- CA Jay proprietor of M/s Adhya & Co., went to abroad and **delegated** the **authority to** another Chartered Accountant Mr. Vijay, **his employee,** for taking care of routine matters of his office **who is not a partner but a member of the Institute of Chartered Accountants of India.**

(iii) Council Clarification: The Council has clarified that the **power to sign routine documents** on which a professional opinion or authentication is **not required to be expressed may be delegated and** such delegation will **not attract provisions of this clause.**

(iv) In the given case:

- Mr. Vijay, a Chartered Accountant being employee of M/s Adhya & Co. has **asked for information or issued questionnaire.**
- He has also **proceeded for initiating and stamping of vouchers and of schedules** prepared for the purpose of audit.
- Apart from the same, he acknowledged and carried out routine correspondence with clients.

(v) Conclusion: Here **Vijay is right in doing the same,** since the **same falls under routine work which can be delegated by the auditor.** Therefore, there is **no misconduct in this case as per Clause (12) of Part I of First Schedule to the Act.**

First Schedule, Part II–Professional Misconduct in relation to Members in Service
Schedule – 1, Part – 2, Clause – 2

70. **Referral Fee from Lawyer**

Mr. 'C', a Chartered Accountant holds a certificate of practice while in employment also, recommends a particular lawyer to his employer in respect of a case. The lawyer, out of the professional fee received from employer paid a particular sum as referral fee to Mr. 'C'. **(SM)**

Ans. **(i) As per Clause:- Clause (2) of Part II of First Schedule** of the Chartered Accountant Act, 1949

A member of the Institute(other than a member in practice) shall be guilty of professional misconduct,

- If he being an employee of any company, firm or person **accepts or agrees to accept**
- **Any part of fee, profits or gains** from a lawyer, a chartered accountant or broker
- **Engaged by** such company, firm or person or agent or customer of such company, firm or person **by way of commission or gratification**.

(ii) **In the present case**:- Mr. C who beside holding a certificate of practice, is also an employee and by referring a lawyer to the company in respect o f a case, he receives a particular sum as referral fee from the lawyer out of his professional fee.

(iii) **Conclusion:- Mr. C is guilty of professional misconduct by virtue of Clause (2) of Part II of First schedule.**

71. CA. Rudra is the Chief Financial Officer of DGT General Insurance Limited. Being in the insurance business, the company gets majority of its clients through their agency contracts. CA. Rudra has the practice of releasing the commission payments on the condition that he gets 25% of the commission amount from the agent. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(Nov-2024, MTP-Sept-2025)**

Ans. According to Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949, a member of the Institute (other than a member in practice) shall be guilty of professional misconduct, if he being an employee of any company, firm or person accepts or agrees to accept any part of fee, profits or gains from a lawyer, a chartered accountant or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

The objective is that when a member is in employment, he must maintain high level of ethics and should not accept any other amount from anyone for which he is not entitled from employer under contractual agreement of service.

In the present case, CA. Rudra is the Chief Financial Officer of DGT General Insurance Limited. He releases the commission payments on the condition that he gets 25% of the commission amount from the agent as majority of the clients are through their agency only.

Therefore, CA. Rudra is guilty of professional misconduct by virtue of Clause (2) of Part II of First Schedule of the Chartered Accountant Act, 1949.

First Schedule, Part III – Professional Misconduct in Relation to Members Generally
Schedule – 1, Part – 3, Clause – 2

72. **Disclosure of Information**

Mr. 'G', while applying for a certificate of practice, did not fill in the columns which solicit information about his engagement in other occupation or business, while he was indeed engaged in a business. **(SM)**

Ans. **(i)** **As per Clause:- Clause (2) of Part III of First Schedule** to the Chartered Accountants Act, 1949

- A member shall be held guilty if a Chartered Accountant, **in practice or not**,
- **Does not supply** the information called for, or
- **Does not comply** with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

(ii) **In the given case:-** Mr. "G", a Chartered Accountant while applying for a certificate of practice, **did not fill in the columns** which solicit information about his **engagement in other occupation or business**, while he was indeed engaged in a business. Details of engagement in business need to be disclosed while applying for the certificate of practice as it was the information called for in the application, by the Institute.

(iii) **Conclusion:- Mr. G will be held guilty for professional misconduct** under the Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949.

73. **Failed to Supply Information**

Mr. X, a Chartered Accountant, employed as a paid Assistant with a Chartered Accountant firm, ***leaves the services of the firm on 31st December, 2024*** he. Despite many reminders from ICAI he fails to reply regarding the date of leaving the services of the firm. **(SM)**

Ans.

(i) As per Clause:- Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949

- A member shall be held guilty if a Chartered Accountant, **in practice or not**,
- **Does not supply** the information called for, or
- **Does not comply** with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

(ii) In the given case:- Mr. X has failed to reply to the letters of the Institute asking him to confirm the date of leaving the service as a paid assistant.

(iii) Conclusion:- He is held guilty of professional misconduct as per Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949.

74. **Failed to Supply Information Called For**

Comment on the following with reference to the provisions of the Chartered Accountant Act 1949:

CA. Anita joined as an audit executive in a CA firm on April 1, 2024. Despite receiving multiple reminders from ICAI, she has failed to respond with her appointment date and submit her membership certificate.

(RTP-May-2024, SM)

Ans.

(i) Provision:

- **In accordance with Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949,**
- a member, whether in practice or not,
- is considered to be engaged in professional misconduct
- if he fails to provide the information requested
- or does not comply with the requirements set forth
- by the Institute, Council, or any of its Committees, including the Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board, or the Appellate Authority.

(ii) Conclusion: Therefore, in the given scenario, **CA. Anita has neglected to respond** to the Institute's letters seeking confirmation of her appointment date **and has not submitted her membership certificate. Consequently,** she is **deemed to be guilty of professional misconduct as given in Clause (2) of Part III of the First Schedule to the Chartered Accountants Act, 1949.**

75. **Misrepresentation**

Hitesh, a Chartered Accountant, applied for obtaining a Certificate of Practice. However, while filling out the application form, he intentionally did not fill the section requiring disclosure of any engagement in other occupations or businesses. Hitesh was actively involved in a business, making this non- disclosure a case of withholding crucial information that was explicitly sought by the Institute.

Analyse whether Hitesh's actions amount to professional misconduct as per the provision of the Chartered Accountants Act, 1949. **(MTP-May-2025)**

Ans. **Disclosure of Information:** As per Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be held guilty if a Chartered Accountant, in practice or not, does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

In the given case, Hitesh, a Chartered Accountant while applying for a certificate of practice, did not fill in the columns which solicit information about his engagement in other occupation or business, while he was indeed engaged in a business. Details of engagement in business need to be disclosed while applying for the certificate of practice as was the information called for in the application, by the Institute.

Thus, Hitesh will be held guilty of professional misconduct under Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949.

76. Mr. Rohan, a practicing Chartered Accountant in Rohan Arjun & Associates is an Associate member of the Institute of Chartered Accountants of India (ICAI) but he started using the designation "FCA" on his visiting cards and professional correspondence to create a better professional image.

During scrutiny of certain records, the ICAI sought clarification from Mr. Rohan regarding activities that appeared unrelated to his professional practice. Despite multiple letters and reminders from the Institute, he failed to respond or provide the requested information.

Mr. Arjun, another partner of firm, whose name had been removed from the Register of Members of the Institute, continued to train an articled assistant and also failed to respond to the Institute's letters seeking clarification.

Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(MTP-May-2026)**

Ans. As per Clause (1) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be deemed to be guilty of professional misconduct, if a Chartered Accountant, in practice or not, not being a fellow of the Institute, acts as a fellow of the Institute.

Further, as per Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be deemed to be guilty of professional misconduct if he, in practice or not, does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority.

In the given case, Mr. Rohan being an Associate member of the Institute of Chartered Accountants of India, incorrectly used the designation "FCA" on his visiting cards and professional correspondence. He also failed to respond to the Institute's letters regarding his involvement in activities unrelated to his practice despite multiple reminders.

Further, Mr. Arjun, another partner of the firm, continued to train an articled clerk though his name was removed from the Register of Members of the Institute. Also, he had failed to send any reply to the Institute asking him to send his explanation as to how he was training as his articled clerk when he was not a member of the Institute.

In view of above, Mr. Rohan will be held guilty of professional misconduct under Clause (1) & Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949.Whereas Mr. Arjun is guilty of professional misconduct under Clause (2) of Part III of the First Schedule of the Chartered Accountants Act, 1949.

First Schedule, Part IV - Other Misconduct in relation to Members Generally
Schedule – 1, Part – 4, Clause – 1 & 2

77. **Other Misconduct**

Write a short note on Other Misconduct. **(SM)**

Ans.

(i) A member is **liable to disciplinary action** under **Section 21** of the Chartered Accountant Act **if he is found guilty of any professional or 'other misconduct'**.

(ii) **Other misconduct** has been defined in **Part IV of First Schedule** and **Part III of Second Schedule** in the CA (Amendment Act) 2006.

(iii) **As per Part IV of First Schedule of the CA Act**, a member of the Institute whether in practice or not, shall be deemed to be guilty of other misconduct if he –

1. Is held guilty by **any civil or criminal court for an offence** which is punishable with imprisonment for a **term not exceeding six months**.

2. In the opinion of the Council, **brings disrepute to the profession or the Institute** as a result of his action, whether or not related to his professional work.

(iv) As per Part III of Second Schedule to the CA Act, a member of the Institute whether in practice or not shall be deemed to be guilty of other misconduct **if he Is held guilty by any civil or criminal court for an offence** which is punishable with imprisonment for a **term exceeding six months**.

(v) This provision empowers the Council to enquire any misconduct of a member **even if it does not arise of professional misconduct**.

(vi) **Some illustrative examples**, where a member may be found guilty of **"Other Misconduct"**, under the aforesaid provisions rendering, himself unfit to be member are :

(i) Where a chartered accountant **retains the books of account and documents of the client** and fails to return these to the client on request without a reasonable cause.

(ii) Where a chartered accountant **makes a material misrepresentation**.

(iii) Where a chartered accountant uses the services of his articled or audit clerk **for purposes other than professional practice**.

(iv) **Conviction by a competent court of law** for any offence under Section 8(v) of the Chartered Accountants Act 1949.

(v) **Misappropriation by office-bearer of a Regional Council** of the Institute, of a large amount and utilisation thereof for his personal use.

(vi) **Non-replying within a reasonable time** and without a good cause to the letter of the public authorities.

(vii) Where **certain assessment records** of income tax department belonging to the client of Chartered Accountant **were found in the almirah of the bed -room of the chartered accountant**

(viii) Where a chartered accountant had adopted **coercive methods on a bank** for having a loan sanctioned to him.

78. **Engaging Articled Assistance for Personal Work**

CA Ajay is contesting Central Council Elections of Institute, engages his Articled Assistant for his election campaign promising him that he will come in contact with influential people which will help to enhance his career after completion of his training period. Comment on the action of CA Ajay with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(MTP- Sept-2025)**

Ans. This aspect is covered under 'Other Misconduct' which has been defined in Part IV of the First Schedule and Part III of the Second Schedule. These provisions empower the Council even if it does not arise out of his professional work. This is considered necessary because a Chartered Accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards, even in his non-professional work, would expose him to disciplinary action.

Further, when a Chartered Accountant uses the services of his Articled Assistant for purposes other than professional practice, it tantamount to 'Other Misconduct'. In the given case, CA Ajay has engaged his Articled Assistant for his election campaigning for the Central Council elections of ICAI. Hence, CA Ajay is guilty of 'Other Misconduct'.

79. **Bringing Disrepute to Profession**

YKS & Co., a proprietary firm of Chartered Accountants was appointed as concurrent auditor of a bank. YKS used his influence for getting some cheques purchased and thereafter failed to repay the loan/overdraft. **(SM)**

Ans. **(i) As per Clause:- Clause (2)of Part IV of First Schedule to the Chartered Accountants Act, 1949,**

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct,

- If he in the **opinion of the Council, brings disrepute**
- To the **profession or the Institute** as a result of his action
- **Whether or not related to his professional work**.

- Here the Chartered Accountant is expected to maintain the **highest standards and integrity even in his personal affairs** and any deviation from these standards **calls for disciplinary action.**

(ii) **In the present case**:- YKS & Co, being a concurrent auditor used his position to **obtain the funds and failed to repay** the same to the bank. This brings disrepute to the profession of a Chartered Accountant. This act of YKS & Co is not pardonable.

(iii) **Conclusion:- YKS & Co will be held guilty of other misconduct** under **Clause (2) of Part IV of First Schedule** to the Chartered Accountants Act, 1949.

80. **Bringing Disrepute to the Profession**

Mr. R, a Chartered Accountant in practice approached Manager of a Nationalised Bank for a loan of ₹25 lakhs. He has also informed the Manager that if the loan is sanctioned, the Income Tax return of the Manager and staff will be filed without charging any fees, as quid Pro quo for the loan sanctioned.

Ans. **(i)** **As per Clause:- Clause (2)of Part IV of First Schedule to the Chartered Accountants Act, 1949,**

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct,

- If he in the **opinion of the Council, brings disrepute**
- To the **profession or the Institute** as a result of his action
- **Whether or not related to his professional work**.
- Here the Chartered Accountant is expected to maintain the **highest standards and integrity even in his personal affairs** and any deviation from these standards **calls for disciplinary action.**

(ii) **In the present case:-** The action of Mr. R, a Chartered Accountant in practice offering free service in return to sanction of loan brings disrepute to the profession of a Chartered Accountant.

(iii) **Conclusion:- Mr. R will be held guilty of other misconduct** under **Clause (2) of Part IV of the First Schedule to** the Chartered Accountants Act, 1949.

81. **Other Misconduct**

Mr. Chetan, a practicing Chartered Accountant, was involved in a family dispute over ancestral property. To gain an undue advantage, he allegedly forged the will of his late uncle, presenting it as a genuine document during legal proceedings. The forgery was later uncovered, and legal action was initiated against him.

Although the act was committed in his personal capacity and not in the course of his professional duties, a complaint was filed with the disciplinary committee of the Institute of Chartered Accountants of India (ICAI).

Analyse whether Mr. Chetan would be held liable for misconduct as per the provisions of the Chartered Accountants Act, 1949. **(MTP-May-2025)**

Ans. **Disrepute to the Profession:** As per Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949, a member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he, in the opinion of the Council, brings disrepute to the profession or the Institute as a result of his action whether or not related to his professional work. Here the Chartered Accountant is expected to maintain the highest standards of integrity even in his personal affairs and any deviation from these standards calls for disciplinary action.

In the present case, Mr. Chetan allegedly forged the will of his late uncle, presenting it as a genuine document during legal proceedings, to gain an undue advantage. This brings disrepute to the profession of a Chartered Accountant.

Therefore, CA Chetan will be held guilty of other misconduct under Clause (2) of Part IV of First Schedule to the Chartered Accountants Act, 1949.

Second Schedule, Part I "Professional Misconduct in relation to Members in Practice Schedule – 2, Part – 1, Clause – 1

82. **Disclosure of Client's Information**

Mr. Parekh, a Chartered Accountant was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Leather Industry. During the course of his presentation he shared

some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at international level. **(SM)**

Ans.

(i) **As per Clause:- Clause (1) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949 deals with the professional misconduct relating to:

- The **disclosure of information** by a chartered accountant in practice
- **Relating to the business** of his clients to **any person other than his client**
- **Without the consent** of his client or
- **Otherwise than as required by any law** for the time being in force would amount to breach of confidence.
- **The Code of Ethics further clarifies** that such a duty continues **even after completion** of the assignment.
- The Chartered Accountant **may however, disclose the information** in case it is required **as a part of performance of his professional duties**.

(ii) **In the given case:-** Mr. Parekh has **disclosed vital information of his client's business** without the consent of the client under the impression that it will help the nation to compete with other countries at International level.

(iii) **Conclusion:-** It is a **professional misconduct** covered by **Clause (1) of Part I of Second Schedule** to the Chartered Accountants Act, 1949.

83. **Disclosure of Client's Information**

Mr. Johny, a chartered accountant, was invited to a seminar on bank audits to give a presentation on the process of conducting such audits. During his presentation, he provided examples from his clients' experiences and shared the significant information about clients with the intention of aid in understanding of audience on the topic. Does above situation have implications in relation to the professional ethics?

(RTP-May-2024, SM)

Ans.

(i) **Provision:**

(a) **Confidentiality** is one of **fundamental principles** governing professional ethics.

(b) **Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949,** addresses professional misconduct related to the disclosure of information by a chartered accountant in practice concerning the business of their clients.

(c) **Such disclosure to any person other than** the **client, without** the **client's consent or unless mandated by** prevailing **law,** is **considered a breach of conduct.**

(d) The Code of Ethics emphasizes that this **duty continues even after** the **completion of** the **assignment, except** when disclosure is **necessary for** the **performance of professional duties.**

(ii) **In the provided case:** CA. Johny disclosed significant information about his client's business without obtaining the client's consent, believing that it would enhance the audience's understanding of the topic.

(iii) **Conclusion:** Therefore, this action of CA. Johny constitutes professional misconduct under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

84. **Disclosure of Client's Information included in Working Papers**

XYZ Co. Ltd. has applied to a bank for loan facilities. The bank on studying the financial statements of the company notices that you are the auditor and requests you to call at the bank for a discussion. In the course of discussions, the bank asks for your opinion regarding the company and also asks for detailed information regarding a few items in the financial statements. The information is available in your working paper file. What should be your response and why? **(SM)**

Ans.

(i) **As per Clause:- Clause (1) of Part I of the Second Schedule** to the Chartered Accountants Act, 1949 deals with the professional misconduct relating to:

- The **disclosure of information** by a chartered accountant in practice
- **Relating to the business** of his clients to **any person other than his client**
- **Without the consent** of his client or

- **Otherwise than as required by any law** for the time being in force would amount to breach of confidence.
- **The Code of Ethics further clarifies** that such a duty continues **even after completion** of the assignment.
- The Chartered Accountant **may however, disclose the information** in case it is required **as a part of performance of his professional duties**.

(ii) **As per SA:- SA 200 on " Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing"** also reiterates that, "the auditor should respect the confidentiality of information acquired in the course of his work and **should not disclose any such information** to a third party **without specific authority** or unless there is a **legal or professional duty** to disclose".

(iii) **In the present case:-** The bank has asked the auditor for **detailed information regarding few items in the financial statements** available in his working papers. Having regard to the position stated earlier, the **auditor cannot disclose the information** in his possession without specific permission of the client.

(iv) **As per SA-230 Audit Documentation:-** Working papers are the **property of the auditor**. The auditor **may at his discretion,** make portions of or extracts from his working papers available to his client".

(v) **Conclusion:-** There is no requirement compelling the auditor to **divulge information obtained in the course of audit** and included in the working papers to any outside agency **except as and when required by any law.**

85. **Reporting to Regulatory Body**

TP and Associates were statutory auditors of Deepa Ltd. The audit for the financial years 2023-24 and 2024-25 is still pending due to a dispute between the auditor and the company regarding certain remarks proposed to be included in the audit report for the financial year 2023-24. Subsequently, in a shareholders' meeting held on 06.05.2024, the company removed TP and Associates as auditors after complying with all applicable legal formalities. TP and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. Deepa Ltd. complained to ICAI against TP and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(MTP-Sept-2025)**

Ans. Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment.

In the given situation, TP & Associates complained to the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors, etc. after coming to know about the removal. TP & Associates made voluntary disclosure of the information acquired during the professional engagement without the consent of the client and without there being any requirement in law to disclose the same. Thus, the concerned responsible partner of TP & Associates, being a Chartered Accountant in practice, shall be held guilty of professional misconduct for voluntary disclosure made by him.

86. **Confidentiality**

DND and Associates are the statutory auditor of XYZ Ltd. Audit of the company is pending for F.Y. 2022-23 and 2023-24 due to a dispute between auditor and company with respect to certain proposed remarks by the auditor in the audit report for F.Y. 2022-23. The company removed the auditor on 06.05.2024 in shareholders

meeting complying with all legal formalities. DND and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. XYZ Ltd. complained to ICAI against DND and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(MTP-May-2025)**

Ans. Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant, in public practice, has access to a great deal of information of his client which is of a highly confidential character. It is important for the work of an accountant and for maintaining the dignity and status of the profession that he should treat such information as having been provided to him, only to facilitate the performance of his professional duties for which his services have been engaged. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment.

In the given situation, DND & Associates complained to the Registrar of Companies (ROC) through letter highlighting the points of dispute including non- existence of fixed assets, bogus creditors, etc. after coming to know about the removal. DND & Associates made voluntary disclosure of the information acquired during the professional engagement without the consent of the client and without there being any requirement in law to disclose the same.

Thus, DND & Associates will be held guilty of professional misconduct under Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

87. **Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto in the following situation:**

CA Anshul is appointed as the statutory auditor of Rise Ltd. During the audit, he obtained details of significant litigation, regulatory investigations, and tax disputes of the company. The Managing Director of the company requested him to share certain audit working papers and internal findings with the company for the purpose of internal restructuring. **(RTP-Nov-2026)**

Ans. As per Clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he discloses information acquired in the course of his professional engagement to any person other than his client so engaging him without the consent of his client or otherwise than as required by any law for the time being in force.

An accountant in public practice has access to a great deal of information of his client, which is of a highly confidential character. It is important that he should treat such information as having been provided to him only to facilitate the performance of his professional duties. To divulge such information would be a breach of professional confidence. The accountant's duty not to disclose continues even after completion of his assignment.

If disclosure is required as a part of performance of professional duty, the fact that such performance is required by the client would itself amount to the client consenting to such disclosure. In all cases, the request or initiative must come from the client. In case of a company, consent is required to be obtained from a competent authority such as the Managing Director if duly authorised, otherwise by a resolution of the Board of Directors.

An auditor is not required to provide the client or other auditors of the same enterprise or its related enterprise such as a parent or subsidiary, access to his audit working papers. The main auditor does not have a right of access to the audit working papers of branch auditors. However, the auditor may, at his discretion, make portions of or extracts from his working papers available to the client. There is a difference between sharing of working papers and sharing of information, and information may be provided only after obtaining consent of the client.

In the given case, during the audit CA Anshul acquired certain confidential information and is requested by the Managing Director of Rise Ltd. to share audit working papers and internal findings.

In view of above, CA Anshul must not share the audit working papers or any confidential information relating to the litigation, investigations or tax disputes with the Managing Director, or discuss it with anyone other than the client, without the client's proper consent obtained through a competent authority.

Schedule – 2, Part – 1, Clause – 3

88. Certification of Financial Forecast

Mr. 'E', a practicing Chartered Accountant, was requested by one of his client to prepare a projection for next five years and also a report on the same. Mr. 'E' after h prepared the same stated in his report 'The sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts. He also stated that he does not vouch for the accuracy of the forecasts.

OR

CA. Kalpana, a practicing Chartered Accountant, certifies a financial forecast of Surya Ltd. one of her clients, which was forwarded to the company's bank based on which the bank sanctioned a loan amounting ₹ 3.5 crore to the company. CA. Kalpana, however, mentioned in the report that her responsibility is to examine the evidence supporting the assumptions and other information in the Prospective financial information, her responsibility does not include verification of the accuracy of the projections, therefore, she does not vouch for the accuracy of the same.

Ans.

(i) As per Clause: Clause (3) Part I of Second Schedule to the Chartered Accountants Act, 1949

A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct,

- If **he permits his name** or the **name of his firm**
- To be used in connection with an **estimate of earnings**
- **Contingent upon** future transactions
- In a manner **which may lead to the belief that** he vouches for the accuracy of the forecast.

(ii) As per Standards:- SAE 3400 "The Examination of Prospective Financial Information",

Provides that the **management is responsible** for the preparation and presentation of the **prospective financial information**, including the identification and disclosure of the sources of information, the basis of forecasts and the underlying assumptions.

(iii) In the instant case:- Mr. E after having prepared the **projections for next five years** stated in his report, "the sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts." He also stated that he does not vouch for the accuracy of the forecasts

(iv) Conclusion:- There is **no violation of the Chartered Accountants Act, 1949 and its Regulations.**

89. Association with Prospective FI

OS Pvt. Ltd., a growing technology and manufacturing company, plans to approach banks and prospective investors for funding to support its expansion plans. As part of this process, the management intends to circulate projected cash flow statements and profitability estimates covering the next few years.

The management has requested a Chartered Accountant in practice to assist in the preparation and examination of these prospective financial statements before they are shared with the intended users. Before accepting the engagement, the Chartered Accountant considered the professional and ethical implications of associating with prospective financial information and the nature of any assurance that could be provided in respect of such information.

Identify the relevant clause relating to professional misconduct applicable in the above case and examine whether a Chartered Accountant in practice can associate with prospective financial information. Also, explain the permissible forms of such association and the precautions that should be observed while undertaking such engagements. **(Nov-2026)**

Schedule – 2, Part – 1, Clause – 4

90. **Appointment of Auditor in case of Director Simplicitor**

Mr. D, a practicing CA, is appointed as a Director Simplicitor in XYZ Pvt. Ltd. After one year of appointment, Mr. D resigned as the Director and accepted the Statutory Auditor position of the company. Is Mr. D right in accepting the auditor position? **(SM)**

Ans.

(i) **As per Clause: Clause (4) of Part I of the Second Schedule** to Chartered Accountants Act, 1949, states that:-

- **Expressing an opinion** on financial statements of **any business** or **enterprise**
- **In which he, his firm or a partner in his firm**
- **Has a substantial interest** would constitute misconduct.

(ii) **As per Companies Act 2013:-**

Section 141 of the Companies Act, 2013 specifically **prohibits a member from auditing the accounts of a company** in which **he is an officer or employee.** Although the provisions of the aforesaid section are **not specifically applicable in the context of audits performed under other statutes,** e.g. **tax audit**, yet the underlying principle of independence of mind is equally applicable in those situations also.

(iii) **Council's view:-** The Council's views are clarified in the following situations. As per the clarifications issued by the Council, **a member shall not accept the assignment of audit** of a Company for a period of **two years** from the **date of completion of his tenure** as **Director**, or resignation as Director of the said Company.

(iv) **In the given case**:- **Mr. D, a practicing CA, is appointed as a Director Simplicitor** in XYZ Pvt. Ltd. After one year of appointment, Mr. D resigned as the Director and **accepted the Statutory Auditor position of the company**.

(v) **Conclusion:-** In view of above provisions Mr. D cannot accept the Directorship of the company until the completion of two years after his resignation. **Thus, CA, D would be held guilty of professional misconduct** under **clause 4 of Part 1 of Second Schedule** of the Chartered Accountants Act, 1949.

Schedule – 2, Part – 1, Clause – 5

91. **Failure to Disclose Material Facts**

Mr. Joe, a Chartered Accountant during the course of audit of M/s XYZ Ltd. came to know that the company has taken a loan of ₹ 10 lakhs from Employees Provident Fund. The said loan was not reflected in the books of account. However, the auditor ignored this information in his report. **(SM)**

Ans.

(i) **As per Clause: Clause (5) of Part I of the Second Schedule**

A Chartered Accountant in practice is deemed to be guilty of professional misconduct If he:

- **Fails to disclose a material fact** known to him
- Which is **not disclosed in a financial statement** but
- **Disclosure of which is necessary** to make the financial statement **not misleading**

(ii) **In the given case:-** Mr. Joe has come across information that a loan of ₹ 10 lakhs has been taken by the company from Employees Provident Fund. This is contravention of Rules and the said loan has not been reflected in the books of accounts. Further, this material fact has also to be disclosed in the financial statements.

(iii) **Conclusion:-** The very fact that Mr. Joe has failed to disclose this fact in his report, **he is attracted by the provisions of professional misconduct under Clause (5)** of Part I of Second Schedule to the Chartered Accountants Act, 1949.

Schedule – 2, Part – 1, Clause – 6

92. Submitting Information as Authorised Representative

A practicing Chartered Accountant was appointed to represent a company before the tax authorities. He submitted on behalf of his clients certain information and explanations to the authorities, which were found to be false and misleading. **(SM)**

Ans.

(i) As per Clause: Clause (5) of Part I of the Second Schedule

A Chartered Accountant in practice is deemed to be guilty of professional misconduct If:

- **He Fails to disclose a material fact** known to him
- Which is **not disclosed in a financial statement** but
- **Disclosure of which is necessary** to make the financial statement **not misleading**

(ii) As per Clause: Clause (6) of Part I of Second Schedule

A Chartered Accountant in practice is deemed to be guilty of professional misconduct If

- **He fails to report a material misstatement** known to him
- To appear in a **financial statement**
- With which **he is concerned in a professional capacity**

(iii) In the given case:- The Chartered Accountant had **submitted** the statements **before the taxation authorities**. These statements are **based on the data provided by the management** of the company. Although the statements prepared were **based on incorrect facts and misleading**, the Chartered Accountant had **only submitted them acting on the instructions of his client** as his authorized representative.

(iv) Conclusion:- Hence the **Chartered Accountant would not be held liable for professional misconduct.** *[Assumed he had no responsibility to verify or vouch the information before submission]*

93. Disclosure of Material Facts

Mr. X partner of X & co. Chartered Accountants, has compiled and signed the balance sheet of False Limited., for submission to the bankers of the said company. Mr. X has also compiled and signed at the request of the company another balance Sheet inflating the value of assets by 20%, for submission to a term lending institution. Both the Balance Sheets were not in conformity with the books of accounts maintained by the company as they were not up-to-date. Comment on Mr. X liability.

Ans.

(i) As per Clause:- Clause (5) of Part I of the Second Schedule

A Chartered Accountant in practice is deemed to be guilty of professional misconduct If he:

- **Fails to disclose a material fact** known to him
- Which is **not disclosed in a financial statement** but
- **Disclosure of which is necessary** to make the financial statement **not misleading**
- Where he is concerned with that financial statement **in a professional capacity**.

(ii) As per Clause:- Clause (6) of Part I of Second Schedule

A Chartered Accountant in practice is deemed to be guilty of professional misconduct If

- **He fails to report a material misstatement** known to him
- To appear in a **financial statement**
- With which **he is concerned in a professional capacity**

(iii) In the given case

Mr. X partner of X & co. Chartered Accountants, has **compiled and signed** the balance sheet of **False Limited**., for submission to the bankers of the said company. **Mr. X has also compiled and signed** at the request of the company **another balance Sheet inflating the value of assets by 20%,** for submission to a **term lending institution**. Both the Balance Sheets were not in conformity with the books of accounts maintained by the company as they were not up-to-date.

(v) Conclusion:- Mr. X would be held guilty under clauses 5 and 6 of Part I of Second Schedule to the CA Act, 1949 as Mr. X had compiled the two different balance sheets for the same date without reference to the actual books of accounts, but on instructions of the client. **As per clause 5** he has failed to disclose material fact known to him and further, **as per clause 6** he has also failed to report a material misstatement known to him.

Schedule – 2, Part – 1, Clause – 7

94. **Not Exercising Due Diligence**

Mr. D, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements. **(SM)**

Ans. **Not Exercising Due Diligence:** According to Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

It is a vital clause which unusually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

Where a Chartered Accountant had not completed his work relating to the audit of the accounts a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirement in this regard. He was guilty of professional misconduct under Clause (7).

Since Mr. D has not completed his audit work in time and consequently could not submit audit

Conclusion: Therefore, the auditor is guilty of professional misconduct under Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

report in due time and consequently, company could not comply with the statutory requirements.

95. **Failure to Exercise Reasonable Care and Skill**

The Cashier of a company committed a fraud and absconded with the proceeds thereof. The Chief Accountant of the company also did not know when the fraud had occurred. During the audit, auditor failed to discover the fraud. However, fraud was discovered by the Chief Accountant after the audit was completed. Investigation made at that time indicates that the auditor did not exercise proper skill and care and performed his work in a desultory and haphazard manner. With this background, the Directors of the company intend to file disciplinary proceedings against the auditor. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(MTP-May-2025)**

Ans. According to Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud that has actually taken place during the year committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

In the given case, the auditor failed to discover the fraud during the audit. It is clearly given that the investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

From the facts given in the case and by applying Clause (7) and SA 240, it can be concluded that the auditor is guilty of professional misconduct and the directors can file disciplinary proceedings against the auditor.

96. **Certification without Examining Books of Account**

CA Chiranjiv who conducted ABC audit of a Haryana daily 'New Era' certified the circulation figures based on Management Information System Report (M.I.S Report) without examining the books of Account. **(SM)**

Ans.

(i) **As per Clause:- Clause (7) of Part I of the Second Schedule to** the Chartered Accountants Act, 1949 states that A Chartered Accountant in practice shall be deemed to be guilty of professional misconduct:

- If he does not exercise **due diligence**, or
- is **grossly negligent** in the conduct of his professional duties.

(ii) **In the instant case:-** CA. Chiranjiv **did not exercise due diligence** and is **grossly negligent** in the conduct of his **professional duties** since he certified the circulation figures without examining the books of accounts.

(iii) **Responsibility of Auditor:**

- **To ascertain the number of paid copies** verification of remittances from the agents, credit allowed to the agents for unsold copies returned, examination of books of account is essential.
- Further **certification of circulation figures** based on statistical information **without cross verifycation with financial records** amounts to **gross negligence** and **failure to exercise due diligence.**

(iv) **Conclusion:-** Hence, CA. Chiranjiv is guilty of professional misconduct as per **Clause (7) of Part I of Second Schedule of Chartered Accountants Act, 1949.**

SJ Note: *Clause 2, Part I, 2nd schedule may be referred, if assumed that CA made no examination of facts*

97. **Grossly Negligent in Conduct of Duties**

Mr. Shubham, a Chartered Accountant was the auditor of 'Work Limited' for the year 2023-24 and 2024-25. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 15 lakh and was the same amount as in the last year 2023-24. Later it was found that the company's investments were only for ₹ 1,65,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

(MTP-May-2026)

OR

Mr. Mayank, a Chartered Accountant was the auditor of 'Chew Limited' for the year 2021-22 and 2022-23. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 7.5 lac and was the same amount as in the last year 2021-22. Later it was found that the company's investments were only for ₹ 56,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

(MTP-May-2024, MTP-Jan-2026)

Ans.

Gross Negligence in Conduct of Duties: As per Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he certifies or submits, in his name or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another Chartered Accountant in practice, under Clause (2); does not exercise due diligence, or is grossly negligent in the conduct of his professional duties, under Clause (7); or fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion, under Clause (8).

The primary duty of physical verification and valuation of investments is of the management. However, the auditor's duty is also to verify the physical existence and valuation of investments placed, at least on the last day of the accounting year. The auditor should verify the documentary evidence for the cost/value and physical existence of the investments at the end of the year. He should not blindly rely upon the Management's representation.

In the given situation, CA Shubham, the auditor of Work Limited for the financial years 2023–24 and 2024–25, reported investments of ₹15 lakh in both years whereas actual investments were only ₹1,65,000. This indicates the failure of CA. Shubham to verify the investments from any proper source and despite material misstatement continuing for two consecutive years, reflects gross negligence and lack of due diligence. Thus,

CA. Shubham will be held liable for professional misconduct under Clauses (2), (7) and (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

98. **Professional Misconduct**

Ground Private Limited requested CA Sukh, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Nishant, one of Directors of Ground Private Limited, along with the copy of resignation letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Nishant was simply copied and pasted by another Director. CA Sukh, without verifying the genuineness of the resignation letter, digitally signed the form and the said form was uploaded on the website of Registrar of Companies. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto.

(MTP-Jan-2026)

Ans. As per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he does not exercise due diligence or is grossly negligent in the conduct of this professional duties.

In the given case, Ground Private Limited requested CA Sukh, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Nishant, one of the Directors of Ground Private Limited, along with the copy of Resignation Letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Nishant was simply copied and pasted by another Director of Ground Private Limited.

CA Sukh, without verifying the genuineness of the Resignation Letter, digitally signed the Form and the said form was uploaded on the website of Registrar of Companies.

Due to forged resignation letter, the resignation of Mr. Nishant from directorship of the Ground Private Limited had been affected. It was noted that CA Sukh had not taken any step to verify forged signature on resignation letter which anyone would have undertaken in normal circumstances.

99. **Grossly Negligent**

Pitch Private Limited requested CA Angad, a practicing Chartered Accountant, to digitally sign the form related to resignation of Mr. Ravi, one of the Director of Pitch Private Limited, along with the copy of resignation letter to be uploaded on the website of Registrar of Companies. The signature of Mr. Ravi was simply copied and pasted by another Director of Pitch Private Limited. CA Angad, without verifying the genuineness of the resignation letter, digitally signed the form and the said form was uploaded on the website of Registrar of Companies. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and Schedules thereto. **(MTP-Nov-2024, SM)**

Ans.

(i) Provision: As per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949,

- a Chartered Accountant in practice is deemed to be guilty
- if he does not exercise due diligence or is grossly negligent
- in the conduct of this professional duties.

(ii) In the given case:

(a) Pitch Private Limited **requested CA Angad,** a practicing Chartered Accountant, to **digitally sign the form related to resignation** of Mr. Ravi, one of the Director of Pitch Private Limited, **along with** the copy of **Resignation Letter to be uploaded on the website** of Registrar of Companies.

(b) The signature of Mr. Ravi was simply copied and pasted by another Director of Pitch Private Limited.

(c) CA Angad, **without verifying** the **genuineness** of the **Resignation Letter, digitally signed the Form** and the said form was uploaded on the website of Registrar of Companies.

(d) Due to forged resignation letter, the resignation of Mr. Ravi from directorship of the Pitch Private Limited had been **occurred.**

(e) It was noted that CA Angad had **not taken any step to verify forged signature on resignation** letter which anyone would have taken in normal circumstances.

(iii) Hence, **CA Angad** would be **held liable for professional misconduct as per Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.**

100. **Grossly Negligent**

DIGI & Associates. conducted Stock Audit of PQR Ltd. as per instructions issued by ASG Bank. However instead of visiting the site where the stock was lying, the firm relied on the Management Information Systems report along with inspections reports and photographs of Stock taken by the employees of PQR Ltd. The photographs were also carrying the date and time printed on them.

Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereon. **(MTP-Nov-2024)**

Ans.

(i) Provision:

(a) According to Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949,

- a Chartered Accountant in practice is deemed to be guilty of professional misconduct
- if he "does not exercise due diligence or is grossly negligent
- in the conduct of his professional duties".

(b) It is a vital clause which usually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties.

(c) The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

(ii) In the instant case:

(a) DIGI & Associate **did not exercise due diligence** and is **grossly negligent** in the conduct of his professional duties since it did not visit the site where the stock was lying and instead the firm relied on the MIS report along with inspection reports and photographs of stock taken by the employees of PQR Ltd, which **is incorrect.**

(b) To conduct stock audit, ascertainment of existence and physical condition of stocks, cross tallying the stock with Stock statement submitted by bank borrower, correct classification of stocks for valuation purpose etc. is essential.

(c) Further submitting stock audit report without physically verifying the stock amounts to gross negligence.

(iii) From the above, it can be concluded that **DIGI & Associate is guilty of professional misconduct under Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949.**

101. **Negligence**

CA. T, the statutory auditor of Race Limited, a PSU, for the year 2023-24. During the audit, CA. T did not detect any fraud having been committed during that year. However, the C & AG audit staffs, during their routine inspection, found that chief cashier of the company committed fraud in debtor's ledger and absconded with the amount. The investigation made in the fraud revealed that the auditor did not exercise proper skill and care and performed his work improperly.

Comment with reference to the provisions of the Chartered Accountants Act, 1949. **(Model Test Paper)**

Ans.

Failure to Exercise Reasonable Care and Skill: Clause (7) of Part I of Second Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he does not exercise due diligence, or is grossly negligent in the conduct of his professional duties.

In the given case, CA. T did not detect any fraud. However, the C & AG audit staff, during their routine inspection, found that the chief cashier of the company committed fraud in debtor's ledger and absconded with the amount.

Apparently, it appears that the auditor did not exercise proper skill and care and that he performed his work in an improper manner. In this matter, the test for auditor's liability lies in whether he has applied reasonable care, skill and caution called for in the circumstances of the case and whether he reasonably used all the information that he came across during the audit.

The auditor should have been highly concerned about the cashbook's state due to the unexpected disappearance of the head cashier. This unexplained absence is a major red flag and demands a thorough investigation by the auditor.

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this that fraud has actually taken place during the year committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

As it appears from the facts of the case, CA. T has been grossly negligent in performing his duties which constitutes professional misconduct. Thus, such instances require reference to Disciplinary Committee of the Council of the Institute.

Schedule – 2, Part – 1, Clause – 8

102. **Inadequate Procedures**

CA Karan, a practicing Chartered Accountant, was approached by Greentech Solutions Ltd. requesting him to issue a certificate regarding the utilization of term loan funds for their expansion project. The company had received ₹ 25 crores from a financial institution and needed to submit a utilization certificate within 60 days of disbursement. CA Karan issued the utilization certificate, stating that the entire loan amount was properly utilized for the intended purpose. However, his verification process was limited to reviewing the summary reports provided by the finance manager and brief discussions with the managing director. He did not examine the bank statements, supporting documents like purchase invoices, contracts, payments, etc. The certificate did not mention any limitations or assumptions made during the verification process.

Four months later, it was discovered that ₹ 5 crores of the loan amount were diverted for purposes other than the approved project, leading to regulatory action against the company.

Comment on the action of CA Karan with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(May-2026)**

Ans. According to Clause (7) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he does not exercise due diligence or is grossly negligent in the conduct of his professional duties.

It is a vital clause which unusually gets attracted whenever it is necessary to judge whether the accountant has honestly and reasonably discharged his duties. The expression negligence covers a wide field and extends from the frontiers of fraud to collateral minor negligence.

Further, as per Clause (8) of Part I of Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion.

In the given case, CA Karan issued a utilization certificate for a term loan of ₹ 25 crores stating that the entire amount was utilised for the intended expansion project without conducting adequate verification procedures.

His review was restricted to summary reports provided by the finance manager and discussions with the managing director, while he failed to examine supporting documents such as bank statements, invoices, contracts, and payment records. The certificate also did not disclose any limitations or assumptions in the verification process. Subsequently, it was discovered that ₹ 5 crores had been diverted for purposes other than the approved project. This indicates gross negligence and lack of due diligence in the discharge of professional duties, as the certificate was issued without obtaining sufficient appropriate information which is necessary for expression of an opinion.

Therefore, CA Karan is guilty of professional misconduct under Clause (7) and Clause (8) of Part I of Second Schedule of the Chartered Accountants Act, 1949.

Schedule – 2, Part – 1, Clause – 9

103. **Peer Review**

M/s GSTR & Associates, Chartered Accountants, is an audit firm consisting of three partners. The partnership firm was formed in the year 2019. M/s GSTR & Associates, specialised in internal audits and tax consultancy services, admitted CA Y as partner in the year 2024, CA Y had vast experience in audit of listed companies as he was the senior audit manager of a leading audit firm before he joins M/s GSTR & Associates. Ruby Limited, a listed entity, appointed M/s GSTR & Associates, Chartered Accountants as statutory auditors for the year ended 31st March 2025. CA Y, the engagement partner signed the balance sheet of Ruby Limited for the year ended 31st March 2025 on 21st May 2025. M/s GSTR & Associates, Chartered Accountants never subjected themselves to the Peer Review process of the Institute. Comment with reference to the Chartered Accountants Act, 1949. **(May-2025)**

Ans. Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.

This clause implies that the audit should be performed in accordance with "generally accepted procedure of audit applicable to the circumstances," and if for any reason the auditor has not been able to perform the audit in accordance with such procedure, his report should draw attention to the material departures from such procedures.

What constitutes "generally accepted audit procedure" would depend upon the facts and circumstances of each case, but guidance is available in general terms from the various pronouncements of the Institute is issued by way of Engagement and Quality Control Standards, Statements, General Clarifications, Guidance Notes Technical Guides, Practice Manuals, Studies and Other Papers.

Audit of Listed Companies: Pursuant to SEBI Notification, statutory audit of listed companies under the Companies Act, 2013 shall be done by only those auditors who have subjected themselves to the Peer Review process of the Institute, and hold a valid certificate issued by the Peer Review Board of the ICAI.

In the given case of M/s. GSTR & Associates, which appointed auditors of a listed entity, Ruby Limited, for the year ended 31.03.2025, CA Y, the proprietor, signed the balance sheet on 21.05.2025 but never subjected the firm to the Peer Review process of the Institute. CA Y would be held guilty of professional misconduct under clause (9) of Part I of the Second Schedule of the Chartered Accountants Act, 1949. Also, CA Y did not comply with the SEBI Notification, which was required to be complied with.

Alternative Answer:

Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 states that a chartered accountant in practice shall be deemed to be guilty of misconduct if he contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council. It requires every member of the institute to act within the framework of the Chartered Accountants Act, 1949, and the regulations and guidelines made by the Council thereunder.

The Statement on Peer Review shall be deemed to be a guideline of the Council under Clause (1) of Part II of the Second Schedule to the Act, and it is obligatory for the Practice Unit to comply with the provisions contained in this Statement.

As per the Statement, every Practice Unit, including its branches who has conducted Statutory Audit of Enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI(LODR) regulations, 2015, will be subject to Peer Review in accordance with this statement.

Audit of Listed Companies: Pursuant to SEBI Notification, Statutory Audit of Listed Companies under the Companies Act, 2013 shall be done by only those auditors who have subjected themselves to the Peer Review process of the Institute, and hold a valid certificate issued by the Peer Review Board of the ICAI.

In the given case of M/s GSTR & Associates, which is appointed auditor of a listed entity, Ruby Limited, for the year ended 31.03.2025, Mr. Y, the engagement partner, signed the Balance sheet on 21.05.2025 but never subjected the firm to the Peer Review process of the Institute. Hence, CA Y would be held guilty of professional misconduct under clause (1) of Part II of the Second Schedule of the Chartered Accountants Act, 1949.

Schedule – 2, Part – 1, Clause – 10

104. **Client Advance**

M/s R & Co., a firm of Chartered Accountants, received ₹ 2 lakhs as advance against professional services from a charitable institution. Additionally, the institution entrusted ₹10 lakhs to the firm for the specific purpose of investment in designated securities. The auditors deposited it in their Savings bank account and no investment was made in the next three months. **(RTP-Sept-2025)**

Ans. If a Chartered Accountant in practice fails to keep moneys of his clients in a separate bank account or fails to use such moneys for purposes for which they are intended then his action would amount to professional misconduct under Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client. However, an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.

In the given case by depositing the client's money of ₹ 10 lakh i.e., for the specific purpose of investment in designated securities, by M/s R & Co., a firm of Chartered Accountants, in their own savings bank account, the auditors have committed professional misconduct. Hence in the given case, M/s R & Co. will be held guilty of professional misconduct under Clause (10) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

105. CA Amit, the auditor of KRT Pvt. Ltd, also undertakes statutory compliance related to Income Tax, GST and MCA for the client. For carrying out the compliances within the time limits KRT Pvt. Ltd. transfer ₹ 3,00,000 to CA Amit with an email that clearly earmarks the utilization of the said amount:

(1) ₹ 1,20,000 is paid as an advance towards professional fees for ongoing audit and taxation work.

(2) ₹ 1,80,000 is to be utilized to make statutory payments of TDS, GST, MCA filing and DIN renewals falling due within 1 month.

CA Amit receives the above amount of ₹ 3,00,000 in his regular savings account.

From the amount of ₹ 1,80,000, he deposits ₹ 50,000 towards TDS payable and ₹ 60,000 against GST liability on the due dates that fall within 1 month from the date of receiving the money from the client.

The balance ₹ 70,000 pertaining to MCA filings and DIN renewals was deposited after 3 months due to portal issues. In between, CA Amit paid his office rent of ₹ 40,000 from this amount and deposited it back in that account within 2 weeks.

Analyse the actions of CA Amit and comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(Jan-2026)**

Ans. As per Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct, if he fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

In the course of his engagement as a professional accountant, a member may be entrusted with money belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilize such funds only in accordance with the instructions of the client or for the purposes intended by the client.

In this connection the Council has considered some practical difficulties of the members and the following suggestions have been made to remove these difficulties:

(i) An advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.

(ii) Moneys received for expenses to be incurred, for example, payment of prescribed statutory fees, purchase of stamp paper etc., which are intended to be spent within a reasonably short time need not be put in a separate bank account. For this purpose, the expression; "reasonably short time", would depend upon the circumstances of each case.

(iii) Moneys received for expenses to be incurred which are not intended to be spent within a reasonably short time as aforesaid, should be put in a separate bank account immediately.

In the given situation, CA Amit receives ₹ 3,00,000 from KRT Pvt. Ltd. in his regular savings account. An analysis of CA Amit's actions with reference to the above provisions are as under: -

- ₹ 1,20,000 received as advance towards professional fees is correctly kept in savings account by CA Amit.
- ₹ 70,000 which was not paid within one month for MCA filings and DIN renewals should have been transferred to a separate bank account as the payment was delayed for more than a reasonably short time.
- ₹ 40,000 which was utilized for payment of office rent of CA Amit and later on replaced, is against the instructions of the client.

In view of above, CA Amit is guilty of professional misconduct under Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act for not keeping the amount of ₹ 70,000 in a separate bank account and for utilizing an amount of ₹ 40,000 which was not in accordance with the instructions of the client.

Second Schedule, Part II "Professional Misconduct in relation to the Members of the Institute Generally"

Schedule– 2, Part – 2, Clause- 1

106. **Contravening Provisions of the Act**

Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of articleship. Mr. Witty, the principal, offered him stipend at the rate of ₹ 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Witty, however, used to disburse salary to all of his employees on time.

Ans.

(i) **As per Clause:- Clause (1) of Part II of the Second Schedule to** 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 contravenes any of the provisions** of this Act or
- **The regulations** made there under or
- **Any guidelines** issued by the Council.

(ii) **In the given case:-** Mr. Witty has **failed to make the payments of stipend** to articled assistant **every month** in accordance with **Regulation 48**. The fact that the articled assistant will be compensated with extra sum in the **form of interest on late payment is not relevant** and the plea that cycle of professional receipts from clients is six months **is not acceptable** as Mr. Witty has disbursed salary to all of his employees on time.

(iii) **Conclusion:-** Therefore, **Mr. Witty is guilty of professional misconduct** under Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949 as he has **contravened Regulation 48** by not making the payment every month.

107. **Sharing Fees with an Articled Clerk**

Mr. Venkat who passed his CA examination of ICAI on 18th July, 2025 and started his practice from August 15, 2025. On 16th August 2025, one female candidate approached him for articleship. In addition to monthly stipend, Mr. Venkat also offered her 0.5% profits of his CA firm. She agreed to take both 0.5% profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to Mr. Venkat objecting the payment of 0.5% profits. Mr. Venkat replies to the ICAI stating that he is paying 0.5% profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is Mr. Venkat liable to professional misconduct? **(MTP-May-2026)**

OR

Mr. X who passed his CA examination of ICAI on 18th July, ***2024*** and started his practice from August 15, ***2024***. On 16th August ***2024***, one female candidate approached him for articleship. In addition to monthly stipend, Mr. X also offered her 1 % profits of his CA firm.

She agreed to take both 1 % profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to Mr. X objecting the payment of 1 % profits. Mr. X replies to the ICAI stating that he is paying 1 % profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is Mr. X liable to professional misconduct? **(MTP-Jan-2026)**

Ans. **Sharing Fees with an Articled Clerk:** As per Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In view of the above, the objections of the Institute of Chartered Accountants of India, as given in the case, are correct and reply of Mr. Venkat, stating that he is paying 0.5 % profits of his firm over and above the stipend to help the articled clerk as the position of the articled clerk is weak is not tenable. Hence, Mr. Venkat is guilty of professional misconduct in terms of Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949.

108. **Loan from a Company whose MD's Son is Article in Firm**

M/s. ABC, a firm of Chartered Accountants has taken a loan for acquiring computers, from a company whose Managing Directors' son is an Articled Trainee with A, a partner of M/s ABC.

Ans.

(i) **As per Clause:- Clause (1) of Part II of the Second Schedule to** 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 contravenes any of the provisions** of this Act or
- **The regulations** made there under or
- **Any guidelines** issued by the Council.

(ii) **As per Regulation: Regulation 47** of the Chartered Accountant's Regulations, 1988

- Prohibits a member from accepting **any premiums or loans or any deposit in connection with his engagement as an articled clerk.**
- **In any form** from an articled clerk **directly or indirectly.**

(iii) **In the present case:-** M/s ABC has taken loan from a company whose Managing Director happens to be father of articled clerk with Mr. A, a partner of M/s ABC. However, **the articled trainee has no direct interest in that company** and **the loan was not related to his engagement**.

(iv) **Conclusion:-** There will **no professional misconduct** on part of M/s XYZ as articles trainee had no interest in the company and the loan was not related to engagement.

109. **Failure to Observe the Regulations**

A Chartered Accountant in practice had confirmed in the application made by his articled clerk to the Council for permission to study that the normal working hours of his office were 11 a.m. to 6 p.m. and the hours during which the articled clerk was required to attend college classes were 7 a.m. to 9.30 a.m. On inquiry from Principal of College, it was ascertained that the articled clerk used to attend classes from 10 a.m. to 1.55 p.m. The Chartered Accountant pleaded ignorance about the articled clerk attending the college classes during office hours. Will the Chartered Accountant be held guilty of professional misconduct?

Ans.

(i) **As per Clause:- Clause (1) of Part II of the Second Schedule to** 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 contravenes any of the provisions** of this Act or
- **The regulations** made there under or
- **Any guidelines** issued by the Council.

And

(ii) **As per Clause (3) of Part II of Second Schedule to the CA Act, 1949,**

A member is deemed to be guilty of professional misconduct:

- If he includes in **any information, statement, return or form**
- **To be submitted to** the **Institute, Council** or **any of its Committees**, **Director (Discipline)**, **Board of Discipline, Disciplinary Committee, Quality Review Board** or **the Appellate Authority**
- **Any particulars knowing them to be false.**

(iii) **As per regulation:-**The chartered accountant, as per Regulations also, **is expected to impart proper practical training**.

(iv) **In the present case:-** The articled clerk must have not been attending office on a regular basis and the explanation of the Chartered Accountant cannot be accepted particularly in view of the fact that the chartered accountant did not obtain certificate from the Principal to confirm the timings. It is also quite likely that the articled clerk would be availing leave quite often and coming late to the office.

(v) **Conclusion:-** He will be deemed to be **guilty of professional misconduct** under **Clause 1 of Part II of Second Schedule** for contravention of regulations of the Institute and under **Clause 3 of Part II of Second Schedule** for submission of **false information** to the ICAI.

110. **Issuing Certificate without having Certificate of Practice**

The manager of Miskin (P) Ltd. approached CA. Rahul in need of a certificate in respect of a consumption statement of raw material. Without having certificate of practice (CoP), CA. Rahul issued the certificate to the manager of the company, acting as a CA in practice and applied for the CoP to the Institute on very next day to avoid any dispute. **(MTP-May-2024, SM)**

Ans.

(i) **As per Clause:- Clause (1) of Part II of the Second Schedule to** 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 contravenes any of the provisions** of this Act or
- **The regulations** made there under or
- **Any guidelines** issued by the Council.

(ii) **Provision of CA act:- Section 6 of Chartered Accountants Act, 1949** provides that **no member of the Institute** shall be entitled to practice (whether in India or elsewhere) **unless he has obtained from the Council a certificate of practice.**

(iii) **In the given case:-** CA. Vineet has issued a certificate in respect of a **consumption statement of raw material** to the **manager of ZedEx (P) Ltd**., as a Chartered Accountant in practice when **he had not even applied for the COP** to the Institute, thereby contravening the provisions of section 6 of the Chartered Accountants Act, 1949.

(iv) **Conclusion:-** CA. Vineet will be held **guilty of professional misconduct** in terms of **Clause (1) of Part II of Second Schedule** to the Chartered Accountants Act, 1949 for contravention of provisions of this Act.

111. **Accepting Appointment as an Auditor**

Mr. C accepted the statutory audit of M/s PSU Ltd., whose net worth is negative for the year 2025-26. The audit was to be conducted for the year 2026-27. The audited accounts for the year 2026-27 showed liability for payment of tax audit fees of ₹ 15,000 in favour of Mr. E, the previous auditor. **(SM)**

Ans. **Accepting Appointment as an Auditor:** As per Chapter IV of Guidelines on Ethical issues, 2026, a member of the Institute of Chartered Accountants of India in practice shall be deemed to be guilty of professional misconduct if he accepts appointment as auditor of an entity in case the undisputed audit fee of another chartered accountant for carrying out the statutory audit under the Companies Act, 2013 or various other statutes has not been paid.

As per the proviso, such prohibition shall not apply in case of a sick unit where a sick unit is defined to mean "where the net worth is negative".

Conclusion: In the instant case, though the undisputed fees are unpaid, Mr. C would still not be guilty of professional misconduct since the M/s PSU Ltd. is a sick unit having negative net worth for the year 2022-23.

Schedule – 2, Part – 2, Clause- 3

112. The Director (Discipline) of The Institute of Chartered Accountants of India had received the matters in respect of cases of alleged misconduct against CA K, the proprietor of M/s KM & Co, Chartered Accountants and was found guilty of professional misconduct under Clause (6) of Part I of the Second Schedule of the Chartered Accountants Act, 1949 and Clause (4) of Part I of the First Schedule of the Chartered Accountants Act, and penalty was imposed by an order passed against him dated 19th June, 2025.

Against the said order, CA K preferred an appeal with the Appellate Authority on 9th August, 2025 by submitting the statement of appeal along with application form of appeal. During such appellate proceedings, it was discovered that the said statement of appeal contained some facts which were false to which CA K admitted it to be false and apologized for it.

Based on the above stated scenario of the matters placed before The Director (Discipline) of ICAI against CA K, you are required to answer the following:

(i) Comment on violation of provisions of the Chartered Accountants Act, 1949 and its schedules thereto by CA K.

(ii) Before which authority, the matters of CA K would have been placed and what maximum punishment could have been imposed on him by the said authority in accordance with the Chartered Accountants Act, 1949?

(iii) Has CA K filed an appeal with the Appellate authority against the order within the time limit prescribed under the said Act? **(Nov-2024, MTP-Jan-2026)**

Ans. (i) As per Clause (3) of Part II of the Second Schedule to 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 includes in any information, statement, return or form to be submitted to the Institute, Council or any of its committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false.

In the instant case, CA K preferred an appeal with the Appellate Authority on 09th August,2025 by submitting the statement of appeal along with application form for the same. However, it was discovered that the said statement of appeal contained some facts which were false, and CA K admitted it to be false.

Therefore, CA K would be held guilty of professional misconduct under Clause (3) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.

(ii) In case where CA K was found guilty of professional misconduct under Clause (6) of Part I of the Second Schedule and Clause (4) of Part I of the First Schedule of the Chartered Accountants Act, 1949: the matter would have been placed before Disciplinary Committee as it's allied to both the Schedule because as per the Chartered Accountant Act, 1949 if the matter is allied to the Second Schedule or Both it is referred to the Disciplinary Committee. The maximum punishment that the Disciplinary

Committee could have imposed would be:

(I) Reprimand the member

(II) Remove the name of the member from the Register permanently or for such period as it may think fit.

(III) Impose such a fine which may extend to rupees five lakhs.

(iii) Timeline for Filing an Appeal: Any member aggrieved by an order of the Board of Discipline or the Disciplinary Committee can prefer an appeal within 90 days from the date of order. In the given case, CA K has preferred an appeal with the appellate authority on 9th August,2025 against the order passed on 19th June 2025. From 19th June to 9th August, 90 days' timeline has not been lapsed. Thus, it can be said that CA K has filed an appeal within the time limit prescribed under the said Act.

Schedule– 2, Part – 2, Clause- 5

113. **Failure to comply with Companies Act**

CA Ajeet, a Chartered Accountant in practice, was appointed as the statutory auditor of Climax Manufacturing Limited. After accepting the appointment, he became aware that certain provisions of the Companies Act, 2013 required the auditor to perform specific procedures and discharge certain statutory responsibilities. However, while conducting the audit, CA Ajeet did not comply with the prescribed requirements and instead followed procedures that were inconsistent with the provisions of the Companies Act, 2013.

With reference to the Chartered Accountants Act, 1949 and Schedules thereto, examine whether CA Ajeet is guilty of professional misconduct. **(MTP-Nov-2026)**

Ans. As per Clause (5) of Part II of Second Schedule to 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 acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.

In the given case, CA Ajeet while acting as the statutory auditor of Climax Manufacturing Limited, did not comply with the prescribed requirements of the provisions of the Companies Act, 2013.

Hence in the given case, CA Ajeet will be held guilty of professional misconduct under Clause (5) of Part II of Second Schedule to the Chartered Accountants Act, 1949.

19.4 - KYC-Norms

114. **Know Your Client Norms**

CA Jiva, a practicing Chartered Accountant since last five years, is providing various advisory services to a wide range of clients. One of his client ASP Ltd is a subsidiary of an overseas conglomerate. CA Jiva is providing advisory services in the field of taxation, GST consultancy, issuing Form 15CB for foreign remittances. All services were being smoothly provided to ASP Ltd until after a certain period it was revealed on an enquiry from the Regulator that the overseas conglomerate had invested in ASP Ltd to use it for carrying out money laundering and crypto laundering. The regulator directed CA Jiva to provide details about ASP Ltd for the

ongoing enquiry. CA Jiva contended that he was providing only taxation, GST consultancy and certification to ASP Ltd and therefore was not required to keep detailed information about the company.

Based on the guidelines issued by ICAI comment on the contentions of CA Jiva ? **(May-2026)**

OR

Mr. F, a Chartered Accountant, gave advisory services to PQR Pvt. Ltd. Further, he gave them GST consultancy, compilation engagement for historical financial information and helped in ERP set up. Later, the company turned out to be a part of a group of companies involved in money laundering. Mr. F was asked to provide details of the companies. Mr. F refused on the grounds that he gave only consultancy services to the company and wasn't supposed to keep any information about the company. Is Mr. F right as per the guidelines issued by the ICAI? **(SM)**

Ans.

The financial services industry globally is required to obtain information of their clients and comply with Know Your Client Norms (KYC norms). Keeping in mind the highest standards of Chartered Accountancy profession in India, the Council of ICAI issued such norms to be observed by the members of the profession who are in practice.

In the given situation, CA Jiva provided advisory services in the field of taxation, GST consultancy and issuing Form 15CB for foreign remittances to ASP Ltd., which was a subsidiary of an overseas conglomerate. Later, it was revealed that the overseas conglomerate had invested in ASP Ltd. to use it for carrying out money laundering and crypto laundering. CA Jiva was asked to provide details about ASP Ltd. for the ongoing enquiry. The contention of CA Jiva that he provided only taxation, GST consultancy and certification to ASP Ltd. and therefore was not required to keep detailed information about the company is not valid as CA Jiva should have kept following information in compliance with KYC Norms which are mandatory in nature and shall apply in all assignments pertaining to attestation functions.

In the given case of ASP Ltd., a Corporate Entity, CA Jiva should have kept following information:

A. General Information

- Name and Address of the Entity
- Business Description
- Name of the Parent Company in case of Subsidiary
- Copy of last Audited Financial Statement

B. Engagement Information

- Type of Engagement

C. Regulatory Information

- Company PAN No.
- Company Identification No.
- Directors' Names & Addresses
- Directors' Identification No.

19.5 - Council Guidelines

115. Minimum Audit Fee

M/s PQR, a firm of Chartered Accountants with 5 partners has accepted the audit of ABC Pvt. Ltd. for 2026-27 at an audit fee of ₹ 2,500. ABC Pvt. Ltd. was incorporated in April, 2020, but had commenced operations in January, 2022.

Ans.

(i) **As per Chapter IX to Guidelines on Ethical Issues, 2026:-** Council of ICAI has **prescribed minimum audit fees** for the practicing members. However, prescribed **minimum audit fee is recommendatory, not yet mandatory in nature.**

(ii) **In the present case:-** Acceptance of audit assignment by M/s PQR, a firm of Chartered Accountants having 5 partners, of ABC Pvt. Ltd. for audit fees of ₹ 2,500 is not violation of any provisions.

(iii) **Conclusion:-** Therefore M/s PQR will **not be held liable for guilty of misconduct.**

116. **Minimum Audit Fees**

SAFE Cooperative Bank shortlisted M/s VW & Colleagues, Chartered Accountants, out of the five audit firms, for assignment of Statutory Audit for the F.Y. 2024-25. Bank emailed the list of branches to the audit firms along with the maximum fee per branch and requested them to submit the quotations. M's VW & Colleagues responded to the bank and submitted their quotations. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. **(Sept-2025)**

Ans. As per Clause 6 of Part I of the First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice shall be guilty of professional misconduct if he solicits clients or professional work either directly or indirectly by circular, advertisement, personal communication or interview or by any other means.

Provided that nothing herein contained shall be construed as preventing or prohibiting -

(i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

(ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

However, as per the Guidelines issued by the Council of the Institute of Chartered Accountants of India, a member of the Institute in practice shall not respond to any tender issued by an organisation or user of professional services in areas of services which are exclusively reserved for Chartered Accountants, such as audit and attestation services. However, such a restriction shall not be applicable where minimum fee of the assignment is prescribed in the tender document itself or where the areas are open to other professionals along with the Chartered Accountants.

In the given case, SAFE Cooperative Bank circulated a list of branches to audit firms, specifying the maximum fee per branch. In response, M/s VW & Colleagues submitted their quotation. As per Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949, and the Guidelines issued by the Council of ICAI, such a response is not permitted, since the assignment relates to audit services exclusively reserved for Chartered Accountants, and only a maximum fee (not minimum) was prescribed. Accordingly, the concerned responsible partner of M/s VW & Colleagues, being a Chartered Accountant in practice, shall be held guilty of professional misconduct for responding to such a quotation.

117. **Maintenance of Books of Account**

L, a chartered accountant did not maintain books of account for his professional earnings on the ground that his income is less than the limits prescribed u/s 62 of the Income Tax Act, 2025. **(MTP-May-2024, SM)**

Ans. **(i) As per Guidelines on Ethical Issues, 2026 (Chapter III):**

- It is specified that if a **chartered accountant in practice** or the **firm of Chartered Accountants** of which he is a partner
- **Fails to maintain and keep** in respect of his/its professional practice, **proper books of account** including the **Cash Book, Ledger and Bill Register.**
- He is deemed to be **guilty of professional misconduct**.

Accordingly, it **does not matter whether section 62 of the Income Tax Act, 1961/ section 62 of Income Tax Act, 2025 applies or not.**

(ii) Conclusion:- Hence, Mr. L is guilty of professional misconduct.

118. **Appointment as a Statutory Auditor Listed Company**

A is the auditor of Z Ltd., which has a turnover of ₹ 300 crore. The audit fee for the year is fixed at ₹ 50 lakhs. During the year, the company offers A an assignment of management consultancy within the meaning of Section 2(2)(iv) of the CA Act, 1949 for a remuneration of ₹ 1 crore. A seeks your advice on accepting the assignment. **(SM)**

Ans. **(i) As per Clause:- Clause (1) of Part II of the Second Schedule to** 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 contravenes any of the provisions** of this Act or
- **The regulations** made there under or
- **Any guidelines** issued by the Council.

(ii) **As per the Guidelines on Ethical Issues, 2026 (Chapter VI):-** A member of the Institute in practice **shall not accepts the appointment as a statutory auditor** of a PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) **having a turnover of ₹ 250 crores or more** in a year **and where he accepts any other work(s)** or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration **which in total exceeds the fee payable** for carrying out the statutory audit of the same undertaking.

(iii) **Conclusion:-** In view of the above position **it would be a misconduct on A's part if he accepts the management consultancy assignment for a fee of ₹ 1 crore.**

119. **Audit Fees in Advance**

D, who conducts the tax audit u/s 44AB of the Income-tax Act of M/s ABC, a partnership firm, has received the audit fees of ₹ 5,50,000 on progressive basis in respect of the tax audit for the year ended 31.3.2026. The audit report was, however, signed on 25.5.2026. **(SM, MTP-Sept-2025, MTP-May-2026)**

Ans. Entire Audit Fees Received in Advance: As per Chapter VII of Guidelines on Ethical issues, 2026 a member of the Institute in practice or a partner of a firm in practice or a firm shall not accept appointment as auditor of a concern while indebted to the concern or given any guarantee or provided any security in connection with the indebtedness of any third person to the concern, for limits fixed in the statute and in other cases for amount exceeding ₹ 5,00,000/-.

However, the Research Committee of the ICAI has expressed the opinion that where in accordance with the terms of engagement of auditor by a client, the auditor recovers his fees on a progressive basis as and when a part of the work is done without waiting for the completion of the whole job, he cannot be said to be indebted to the company at any stage.

Conclusion: In the instant case, Mr. D is appointed to conduct a tax audit u/s 44AB of the Incometax Act. He has received the audit fees of ₹ 5,50,000 in respect of the tax audit for the year ended 31.3.2026 which is on a progressive basis. Therefore, Mr. D will not be held guilty for misconduct.

120. **Undercutting of Fees**

Mr. Rahul, a locally based Chartered Accountant, accepted an audit assignment at a fee lower than that charged by the previous auditor, who was stationed in another town and had to spend a lot of money on travel for which he did not charge separately.

Ans. **(i)** **As per -**

- Council of ICAI has **prescribed minimum audit fees, chapter IX of Guidelines on Ethical Issues, 2026** for the practicing members. However, prescribed minimum audit fee is **recommendatory, not mandatory in nature**.
- Fees in any professional assignment depend upon the mutual agreement and understanding between the member and the client.

(ii) **In the given case:-** Mr. Rahul is a locally based Chartered Accountant, **accepted an audit assignment** at a fee **lower than that charged by the previous auditor**, who was outstation based Chartered Accountant and had to **spend a lot of money on travel** which was **included in his audit fee** and was not charged by him separately.

(iii) **Interpretation of guidelines with case:-**

Since the previous auditor was **stationed in another town** and therefore, had to **incur higher cost on account of conveyance**, and the previously the **fee was decided** on a composite basis **inclusive of travelling expenses** of the auditor, it cannot be said that Mr. Rahul has accepted an audit assignment based on under cutting of fees.

(iv) Conclusion:- Mr. Rahul will not be held guilty for misconduct.

121. **CA Logo**

Mr. Ramesh, a practicing Chartered Accountant and partner at RR & Associates, recently ordered a new set of visiting cards and letterheads for his firm. He made following changes in the CA India logo to make the cards attractive:

- Changed the background from white to grey to match the firm's colour theme;
- Reduced the size of the logo to fit it in a smaller area on the top-right corner.
- Replaced the word "India" in the logo with his firm's initials.
- Added a gradient effect to the blue colour in the letters "CA".

He believes these are minor changes made to match the firm's branding. Comment on the action of CA. Ramesh with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(MTP-Sept-2025)**

Ans. As per Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he advertises his professional attainments or services, or uses any designation or expressions other than the Chartered Accountant on professional documents, visiting cards, letter heads or sign boards unless it be a degree of a University established by law in India or recognized by the Central Government or a title indicating membership of the Institute of Chartered Accountants or of any other institution that has been recognized by the Central Government or may be recognized by the Council.

Further, Appendix L Logo Guidelines prescribes the following guidelines for CA members:

- There should be no alteration of the font (colour, bold/unbold, size). Moreover, there should be no change in spacing and dimensions.
- Do not change the design and colours including the white background.
- Refrain from rotating or tilting the logo clockwise and anti-clockwise.
- The logo should not be shrunk or distorted changing the original proportion.

In the given case, CA. Ramesh made changes in the CA India logo to make the cards attractive. He changed the background colour from white to grey to match the firm's theme, reduced the size of the logo to fit into a smaller space on the top- right corner of his cards, replaced the word "India" in the logo with his firm's initials, and added a gradient effect to the blue colour in the letters "CA".

Hence, CA. Ramesh will be held guilty of professional misconduct due to violation of the Council General Guidelines and Clause (7) of Part I of First Schedule to the Chartered Accountants Act, 1949.

122. **Guidelines for Networking**

CA Suba is a senior partner in a chartered accountancy firm in Mumbai. She and few other CA firms, each specializing in different sectors, agree to form a network to enhance their service portfolio and geographical reach. They apply to the ICAI for the network name approval, which is granted as "Suba & Affiliates". They are under the process of submitting relevant forms to the ICAI for Registration.

Simultaneously, M/s. RS & Associates, one of the member firms in the group, signs a collaboration agreement with an international accounting network based in Singapore.

Based on above facts, you are required to

Guide CA Suba & M/s. RS & Associates with regard to Guidelines for Networking issued by the ICAI in respect of registration of Network with entities in India and outside India.(Provision now deleted from ICAI-SM)

(Sept-2025)

Ans.

Registration of Network with entities in India

1. An application for approval of the name of the Network shall be made to the Institute in Form A. Institute shall approve or reject and intimate the same to the Network at its address mentioned in Form A within a period which shall not be later than 30 days from the date of receipt of said form.
2. After the name of a Network is approved as per provision under Guideline 5, the Institute shall reserve such name for a period of three (3) months from the date of approval.
3. The Network shall get itself registered with the Institute by applying in Form B within the period of 3 months, failing which the name assigned shall stand cancelled on the expiry of the said period.
4. Registration of Network with Institute is mandatory.
5. If different Indian firms are networked with a common Multinational Accounting Firm, they shall be considered as a part of network.

Listing of Network with entities outside India

1. The duly authorized representative(s) of the Indian Member firm(s)/Member constituting the Network with entities outside India shall file a declaration with the Institute in Form 'D' for Listing of such Network within 30 days from the date of entering into the Network arrangement.
2. Proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members as may be permitted by the Act, shall be permitted to join such network with entities outside India provided that the proprietary/individual members, partnership firms as well as members in LLP or any such other entity of members are allowed to join only one network and firms having common partners shall join only one such network.

123. **ESB: GeM**

GeM (e-market place) is a public procurement portal which provides opportunities to start-ups, entrepreneurs etc. to showcase their innovative products and services to government buyers and engage in public procurement. The Government e Marketplace Special Purpose Vehicle (GeM SPV), a 100% government owned and section 8 (Non-Profit) company under the Ministry of Commerce, Government of India has been incorporated under the Companies Act, 2013 to develop, manage and maintain GeM platform. Whether a firm of Chartered Accountants can register on GeM portal for rendering professional services to government departments? **(MTP-May-2024, SM)**

Ans.

Provision:

As per provisions of Council Guidelines for Advertisement, 2008, it is not **permissible for members to list themselves with online application based service provider Aggregators, for services which are exclusively reserved for Chartered accountant. However there is no restriction on listing for non-exclusive services. Members may also list on plat forms of Government / Regulators like Gem Portal**

Firms of Chartered Accountants are **permitted to register on GeM Portal for rendering professional services** as there is **no violation** of the **ethical norms of the Institute** in registering on the GeM portal and such registration on the Portal is a pre-requirement for providing services to the Government departments/ organisations.

124. **Guidelines on Ethical Issues, 2026**

(a) CA Vaayu is the auditor of Viva Limited having a turnover of more than ₹ 300 Crores. The audit fee for the year is fixed at ₹ 80 Lakhs. During the year, the company offers CA Vaayu an assignment of representation before Income Tax Appellate Tribunal for certain matter for remuneration of ₹ 1.75 crores. CA Vaayu accepted the assignment. Discuss action of CA Vaayu with reference to the provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. **(SM)**

(b) Sanjeev & Associates, a firm of Chartered Accountants responded to a tender from a PF Office, Chembur for filing quarterly e-TDS returns. The terms of tender are as follows:

(i) Earnest Money Deposit of ₹ 7,500/-

(ii) It is open for all categories

(iii) Maximum fees of ₹ 7,500/- per quarter

Discuss whether Sanjeev and Associates can respond to the said tender with reference to provisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. **(RTP-Nov-2024, SM)**

Ans.

(a)

(i) Provision:

As per the Guidelines on Ethical Issues, 2026 Chapter VI on appointment as statutory auditor a **member** of the Institute **in practice** shall **not accepts** the **appointment as** a **statutory auditor of** a **PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having** a **turnover of ₹ 250 crores or more in a year and where he accepts any other work(s)** or assignment(s) or service(s) in regard to same undertaking(s) **on a remuneration** which **in total exceeds** the **fee payable for** carrying out the **statutory audit of** the **same undertaking.**

For this purpose, the **other work/services include Management Consultancy and all** other **professional services permitted by Council excluding** audit under any other statute, Certification work required to be done by the statutory auditor and any representation before an authority.

(ii) In the given case: Company **offers CA Vaayu,** the statutory auditor, an **assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 1.75 Crores.**

(iii) Conclusion: In view of the above provision, it would **not be misconduct on Vaayu's part if he accepts** the **assignment of representation** before Income Tax Appellate Tribunal for **remuneration of ₹ 1.75 crore.**

(b)

(i) Provision:

(a) As per Clause 6 of Part I of the First Schedule to the Chartered Accountants Act, 1949,

- a Chartered Accountant in practice shall be guilty of professional misconduct
- if he solicits clients or professional work
- either directly or indirectly
- by circular, advertisement, personal communication or interview or by any other means.

(b) Provided that nothing herein contained shall be construed as preventing or prohibiting -

(i) Any Chartered Accountant from applying or requesting for or inviting or securing professional work from another chartered accountant in practice; or

(ii) A member from responding to tenders or enquiries issued by various users of professional services or organisations from time to time and securing professional work as a consequence.

(c) However, **as per** the **Guidelines issued by** the **Council** of the **Institute of Chartered Accountants of India,** a **member** of the Institute **in practice** shall **not respond** to any **tender issued by an organisation or user of professional services** in areas of services **which are exclusively reserved for chartered accountants, such as audit and attestation services.**

(d) However, such a **restriction** shall **not** be **applicable where minimum fee** of the assignment **is prescribed** in the tender document itself **or** where the **areas** are **open to other professionals along with the Chartered Accountants.**

(ii) In the given case: Sanjeev & Associates **responded to** a **tender** from a PF Office, Chembur **for filing quarterly e-TDS returns.**

(iii) Conclusion: Sanjeev & Associates can respond to the said tender as the tender is open for all the categories i.e. it is open to other professionals along with the Chartered Accountants.

125. **Guidelines on Ethical Issues, 2026 - Chapter VI**

CA Alok is the auditor of VT Limited, an unlisted public company, which has a turnover of ₹ 300 crore during the FY 2025-26. The statutory audit fee for the year is fixed at ₹ 10 lakh. During the year, the company also offered CA Alok, the following further assignments :

(i) Tax audit of the company u/s 44AB of the Income Tax Act, 1961, for which the fees is fixed at ₹ 5 lakh.

(ii) Various certification work for which fees is fixed at ₹ 2 lakh.

(iii) Representation before GST authorities for which fees is fixed at ₹ 4 lakh.

CA Alok seeks your advise for accepting the above assignments. Comment with reference to the provisions of the Chartered Accountants Act, 1949. **(May-2026)**

Ans. **Appointment as a Statutory Auditor of a PSUs'/Govt Company(ies)/ Listed Company(ies) and Other Public Company(ies):** As per the Guidelines on Ethical Issues, 2026, under Chapter VI on appointment as statutory auditor a member of the Institute in practice shall not accepts the appointment as a statutory auditor of a PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having a turnover of ₹ 250 crores or more in a year and where he accepts any other work(s) or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking.

For this purpose, the term "other work(s)" or "service(s)" or "assignment(s)" shall include Management Consultancy and all other professional services permitted by the Council pursuant to Section 2(2)(iv) of the Chartered Accountants Act, 1949 but shall not include

(a) audit under any other statute;

(b) certification work required to be done by the statutory auditors; and

(c) any representation before an authority;

In the given case, turnover of the VT Limited, which is a public company, is having turnover ₹ 150 crore or more, therefore CA Alok statutory auditor is covered under the provision of Chapter VI of the Guidelines on Ethical Issues, 2026.

Fees for tax audit work under u/s 44AB of the Income-tax Act, 1961 for ₹ 5 lakh, certification work for ₹ 2 lakh and representation fees before GST authority for ₹ 4 lakh totaling to ₹ 11 lakh exceeds statutory audit fees ₹ 10 lakh. However, all these three services are excluded from the term "other work(s)" or "service(s)" or "assignment(s)".

Therefore, there is no restriction for CA Alok to accept offer of these services, hence there is no misconduct on the part of CA Alok under the Chartered Accountants Act, 1949.

126. **Tax representation services by auditor**

CA Kapil is the auditor of INFRA Limited having a turnover of more than ₹ 250 crores. The audit fee for the year is fixed at ₹ 85 Lakhs. During the year, the company offers CA Kapil an assignment of representation before Income Tax Appellate Tribunal for certain matter for remuneration of ₹ 1.80 crores. CA Kapil accepted the assignment. Discuss action of CA Kapil with reference to the rovisions of the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto. **(MTP-May-2025, MTP-May-2026)**

Ans. As per the Guidelines on Ethical Issues, 2026, under Chapter VI on appointment as statutory auditor a member of the Institute in practice shall not accepts the appointment as a statutory auditor of a PSUs'/Govt company(ies)/Listed company(ies) and other public company(ies) having a turnover of ₹ 250 crores or more in a year and where he accepts any other work(s) or assignment(s) or service(s) in regard to same undertaking(s) on a remuneration which in total exceeds the fee payable for carrying out the statutory audit of the same undertaking. For this purpose, the other work/services include Management Consultancy and all other professional services permitted by Council excluding audit under any other statute, Certification work required to be done by the statutory auditor and any representation before an authority.

In the given case, the company offers CA Kapil, the statutory auditor, an assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 1.80 Crores.

In view of the above provision, CA Kapil will not be held guilty of professional misconduct if he accepts the assignment of representation before Income Tax Appellate Tribunal for remuneration of ₹ 1.80 crore.

127. **ESB Decision**

CA Sahil is the statutory auditor of Greenway Ltd., a listed company falling under the top 1000 companies as per market capitalisation on the stock exchange. The company is required to submit its Business Responsibility & Sustainability Reporting (BRSR) as per SEBI regulations. Greenway Ltd. approached CA Sahil to prepare the BRSR study/report and assist in drafting disclosures. Additionally, the company requested CA Sahil to also provide assurance on BRSR Core, to be submitted as part of the regulatory filings. CA Sahil, being confident in his knowledge and expertise in sustainability reporting, agreed to both roles — preparing the BRSR study and providing assurance on the BRSR Core. **(RTP-Sept-2025)**

Ans. As per the recent decisions taken by the Ethical Standards Board of ICAI, it is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same. It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" for the same client.

In the given case, Greenway Ltd., a listed entity, is required to submit a BRSR as per SEBI regulations. The company approached CA Sahil to prepare the BRSR study and to provide assurance on the BRSR Core for regulatory submission. CA Sahil accepted both assignments.

In view of the above guidance issued by the ESB, it can be concluded that CA Sahil's acceptance of the assignment to prepare the BRSR study for his audit client Greenway Ltd. is not permissible. However, his role as an assurance provider for BRSR Core is permissible. Hence, CA Sahil would be held guilty of professional misconduct for accepting the assignment to prepare the BRSR study.

128. **Tax Audit**

M/s Aarav & Associates, a firm of Chartered Accountants, has three partners, CA Aarav, CA Bhavna and CA Chirag. During the year 2026-27, the partners accepted and signed the following tax audit assignments:

Particulars	CA Aarav	CA Bhavna	CA Chirag
Tax audit assignments signed in individual capacity under section 44AB(a)/(b)	20	22	12
Tax audit assignments signed as partner of M/s Aarav & Associates under section 44AB(a)/(b)	42	30	45
Tax audits relating to persons covered under section 44AE	4	3	5
Tax audits relating to persons covered under section 44AD	3	2	4
Revised tax audit reports issued during the year	2	3	1

CA Aarav contends that since the firm has three partners, the limit of 60 tax audits can be shared among the partners and, therefore, he can accept additional tax audit assignments. CA Bhavna, on the other hand, argues that the tax audits under sections 44AE and 44AD should also be included while determining the limit of 60.

With reference to Appendix G to Guidelines on Ethical Issues, 2026 examine the above contentions and determine whether CA Aarav, CA Bhavna and CA Chirag have complied with the prescribed limit of tax audit assignments. Also state whether the revised tax audit reports are to be considered for this purpose.

(MTP-Nov-2026)

Ans. **Tax Audit Assignments – Appendix G:** In order to ensure the quality of tax audit, the Council of the Institute has decided the limit on the number of tax audits, to be affected by issuance of new guidelines, as follows –

(i) the existing limit of 60 tax audit assignments per member to be retained, but the same shall be in respect of tax audit assignments in a particular financial year.

(ii) the said limit of 60 would be the aggregate limit in respect of all tax audits accepted and signed by a member, both in his individual capacity and as a partner of a firm(s). In other words, an individual member cannot sign more than 60 tax audit reports in a financial year.

(iii) the limit on number of tax audit assignments per partner in a CA Firm cannot be distributed/or shared between the partners.

(iv) the limit of 60 would, however, not apply to tax audit assignments arising out of the requirements under clause (c), clause (d) and clause (e) of section 44AB, in relation to persons covered under section 44AE, 44ADA and 44AD, respectively.

(v) in the case of revision of tax audit report, the revised tax audit report shall not be taken into account for the purpose of reckoning the said limit of 60.

Accordingly:

Member	Assignments signed in individual capacity under section 44AB(a)/(b) + assignments signed in capacity of Partner under section 44AB(a)/(b) = Assignments counted	Compliance
CA Aarav	20 + 42 = 62	Non-Compliance
CA Bhavna	22 + 30 = 52	Complied
CA Chirag	12 + 45 = 57	Complied

The assignments relating to sections 44AE and 44AD are excluded from the above computation. The revised tax audit reports are also not counted for determining the limit.

Therefore, CA Bhavna and CA Chirag have complied with the limit of 60 tax audit assignments whereas CA Aarav has exceeded the limit and not complied with Guidelines.

Further, CA Aarav's contention that the limit of 60 can be shared amongst the partners is incorrect. The limit is applicable individually to each member and cannot be distributed/shared among the partners of the firm.

Also, CA Bhavna's contention that audits under sections 44AE and 44AD should be included is incorrect, as such assignments are specifically excluded from the prescribed limit.

19.6 - Recommended Self Regulatory Measures

129. **Joint Auditors - Recommended Measures**

S & Co., a firm of Chartered Accountants, has recently undertaken audit assignments of several large companies. During an internal review, the senior partner observed certain practices being followed by the firm in relation to audit assignments, staffing, fee structure and disclosures.

The observations noted were as follows:

(i) S & Co., being the statutory auditors of a company and having a firm strength of 12 members, continued to undertake branch audits of the same company.

(ii) In the case of a large audit engagement, the partners of S & Co. refused to associate with a small firm consisting of four members as a joint auditor, stating that such firms should not be appointed as joint auditors in large companies.

(iii) The firm maintained a ratio of qualified to unqualified staff of 1:10, excluding articled clerks and audit assistants.

(iv) The firm did not disclose payments received for other professional services rendered through another firm in which some of the partners were also partners.

(v) The firm charged professional fees below the recommended minimum scale of fees.

With reference to the self-regulatory measures prescribed by the ICAI under Professional Ethics, examine the above practices and state, with brief reasons, whether each practice is in accordance with such measures.

(Nov-2026)

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CA FINAL RESULT 2025-26

















































































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