

# **Ethics - Redefined**

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# Scope

The Council at its 413th meeting held in August,2022 decided the deferred provisions contained in Volume-I of Code of Ethics, 2019 which have been deferred from 1st July, 2020 till 30th September, 2022 will be made applicable from 1st October 2022

**with certain amendments.**

So we are covering these amendments today

# Provisions are related to

**1. Responding to Non-Compliance with Laws and Regulations (NOCLAR) [Sections 260 and 360]**

**2. Fees - Relative Size [Paragraphs 410.3 to R410.6]**

**3. Tax Services to Audit Clients [Subsection 604]**



# Public interest entity

**(a) A listed entity; or**

**(b) An entity:**

**(i) Defined by regulation or legislation as a public interest entity; or**

**(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.**

**For purpose of this definition, it may be noted that Banks and Insurance Companies are to be considered as Public Interest Entities.**



**Responding to Non-  
Compliance with Laws and  
Regulations (NOCLAR)  
[Sections 260 and 360]**

**Responding to Non-Compliance with Laws and Regulations (NOCLAR)  
applicable to Professional Accountants in service  
(Section 260)**

7.	Applicable to all employees of listed entities	Applicable to Senior Professional Accountants in service, being employees of listed entities.
8.	Senior professional accountants in service ("senior professional accountants") are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.	No Change.  It is further explained that the senior professional accountants refer to key managerial personnel.

**Why this  
NOCLAR**

**A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.**

**comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:**

**(a) The professional accountant's employing organization;**

**(b) Those charged with governance of the employing organization;**


**(c) Management of the employing organization; or**

**(d) Other individuals working for or under the direction of the employing organization.**




# When encountering non-compliance

**When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions, if any, and comply with them, including:**



**(a) Any requirement to report the matter to an appropriate authority; and**



**(b) Any prohibition on alerting the relevant party.**

## **Protocol**

**If protocols and procedures exist within the professional accountant's employing organization to address non-compliance or suspected non-compliance, the accountant shall consider them in determining how to respond to such non-compliance.**



# Identified or Suspected non-compliance

**If the senior professional accountant identifies or suspects that non-compliance has occurred or might occur,**

**the accountant shall, discuss the matter with the accountant's immediate superior, if any.**

**If the accountant's immediate superior appears to be involved in the matter, the accountant shall discuss the matter with the next higher level of authority within the employing organization.**

# Communication to External Auditor

**In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor, if any, is needed.**

**RESPONDING TO NON-  
COMPLIANCE WITH LAWS AND  
REGULATIONS DURING THE  
COURSE OF AUDIT  
ENGAGEMENTS OF LISTED  
ENTITIES**





# Threat

**A self-interest or intimidation threat to compliance with the principles of integrity and professional behaviour is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations during the course of audit.**

# Applicability

**A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance during the course of Audit Engagements of entities the shares of which are listed on recognized stock exchange(s) in India and have net worth of 250 crores of rupees or more. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:**

**(a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client's financial statements; and**

**(b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.**

# Encountering

**When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of legal or regulatory provisions governing such non-compliance or suspected non-compliance, and comply with them, including:**

**(a) Any requirement to report the matter to an appropriate authority; and**

**(b) Any prohibition on alerting the client.**



# Actions

**In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the professional accountant shall advise them to take appropriate and timely actions, if they have not already done so, to:**

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;**
- (b) Deter the commission of the non-compliance where it has not yet occurred; or**
- (c) Disclose the matter to an appropriate authority where required by law or regulation**

# Disclosure to Appropriate Authorities

**the professional accountant might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:**

- **The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).**
- **The entity is regulated and the matter is of such significance as to threaten its license to operate.**
- **The entity is listed\* on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.**
- **It is likely that the entity would sell products that are harmful to public health or safety.**
- **The entity is promoting a scheme to its clients to assist them in evading taxes.**



**Fees - *Relative Size***  
**[Paragraphs 410.3 to**  
**R410.6]**



# Threat

**When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.**

# **Factors to be Considered**

**Factors that are relevant in evaluating the level of such threats include:**

- The operating structure of the firm.**
- Whether the firm is well established or new.**
- The significance of the client qualitatively and/or quantitatively to the firm.**

# Applicability

Where an audit client is **not a public interest entity** and for two consecutive years, the total gross annual professional fees (“total fees”) from the client and its related entities represent more than 40% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:

Disclose **to the Institute** the fact that for two consecutive years, the total of such fees represents more than 40% of the total fees received by the firm. Provided that no such ceiling on the total fees of the firm shall be applicable where total fees of the firm does not exceed twenty lakhs of rupees in respect of a firm including fees received by the firm for other services rendered through the medium of a different firm or firms in which such member or firm may be a partner or proprietor.

Provided further that no such ceiling on the total fees of a firm would be applicable in the case of audit of government Companies, public undertakings, nationalised banks, public financial institutions or where appointments of auditors are made by the Government or Regulators.

If the fees described in above paragraph continue to exceed 40% after two years, the firm shall each year disclose to the Institute the matters set out in that paragraph

# Requirements

**Where an audit client is a **public interest entity** and for two consecutive years, the total gross annual professional fees (“total fees”) from the client and its related entities represent more than 20% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall disclose to the Institute the fact that for two consecutive years, the total of such fees represents more than 20% of the total fees received by the firm. Provided that no such ceiling on the total fees of the firm would be applicable where total fees of the firm does not exceed twenty lakhs of rupees in respect of a firm including fees received by the firm for other services rendered through the medium of a different firm or firms in which such member or firm may be a partner or proprietor.**

**Provided further that no such ceiling on the total fees of a firm would be applicable in the case of audit of government Companies, public undertakings, nationalised banks, public financial institutions or where appointments of auditors are made by the Government or Regulators If the fees described in above paragraph continue to exceed 20%, after two years, the firm shall each year disclose to the Institute the matters set out in above para**




**SUBSECTION 604 –**  
**TAX SERVICE**





**Threat**

**Providing tax services to an audit client might create a self-review or advocacy threat**



## **All Audit Clients**

Tax services comprise a broad range of services, including activities such as:

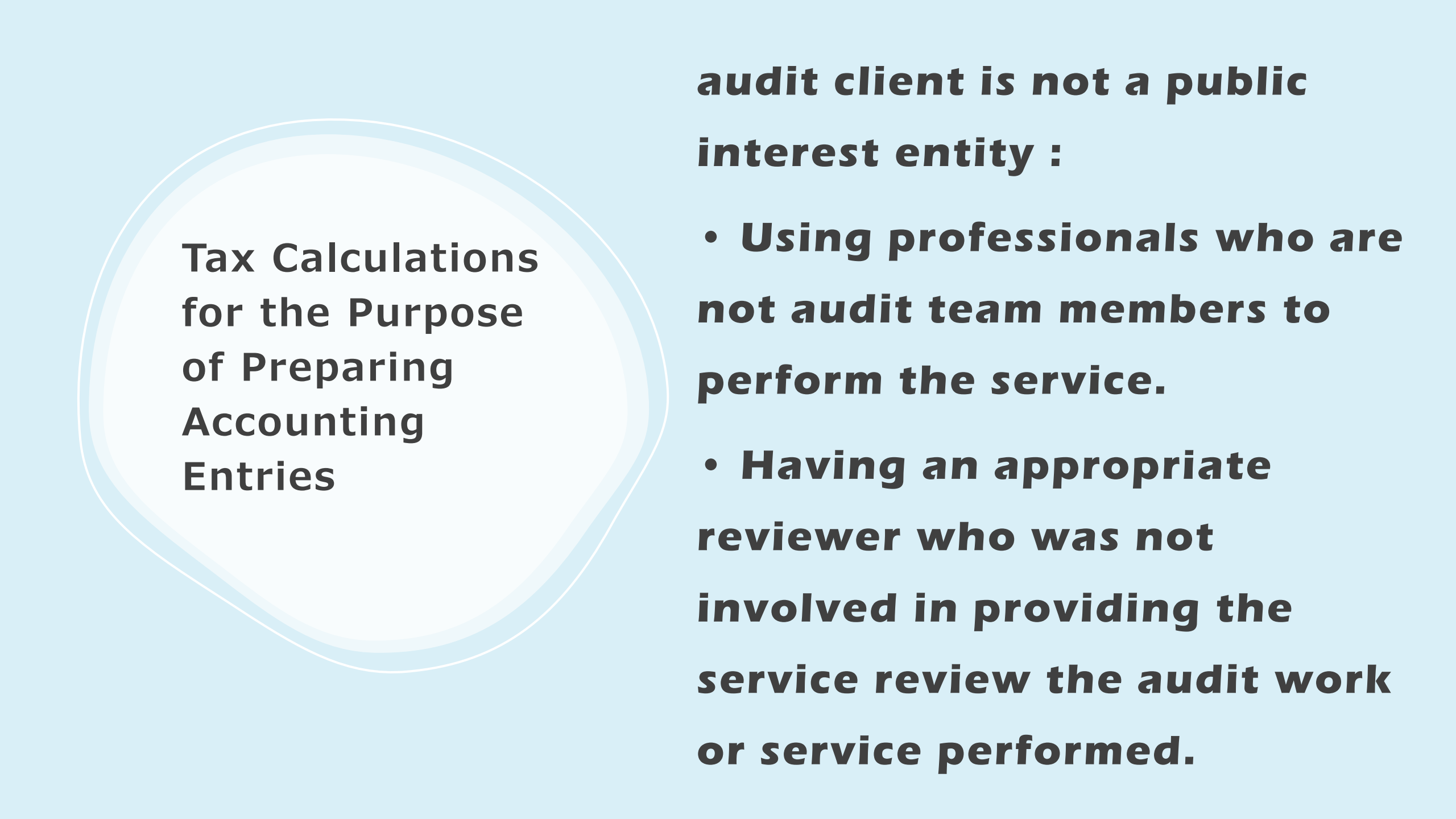
- Tax return preparation.
- Tax calculations for the purpose of preparing the accounting entries.
- Tax planning and other tax advisory services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

While this subsection deals with each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often inter-related.



**Tax Return  
Preparation**

**Providing tax return  
preparation services  
does not usually  
create a threat.**



**Tax Calculations  
for the Purpose  
of Preparing  
Accounting  
Entries**

**audit client is not a public  
interest entity :**

- **Using professionals who are not audit team members to perform the service.**
- **Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.**

# **Audit Clients that are Public Interest Entities**

**A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion. However, the professional accountant may review the tax calculation prepared by the client**



# **Tax Planning and Other Tax Advisory Services**

## **Tax Planning and Other Tax Advisory Services**

**A firm or a network firm shall not provide tax planning and other tax advisory services to an audit client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:**

**(a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and**

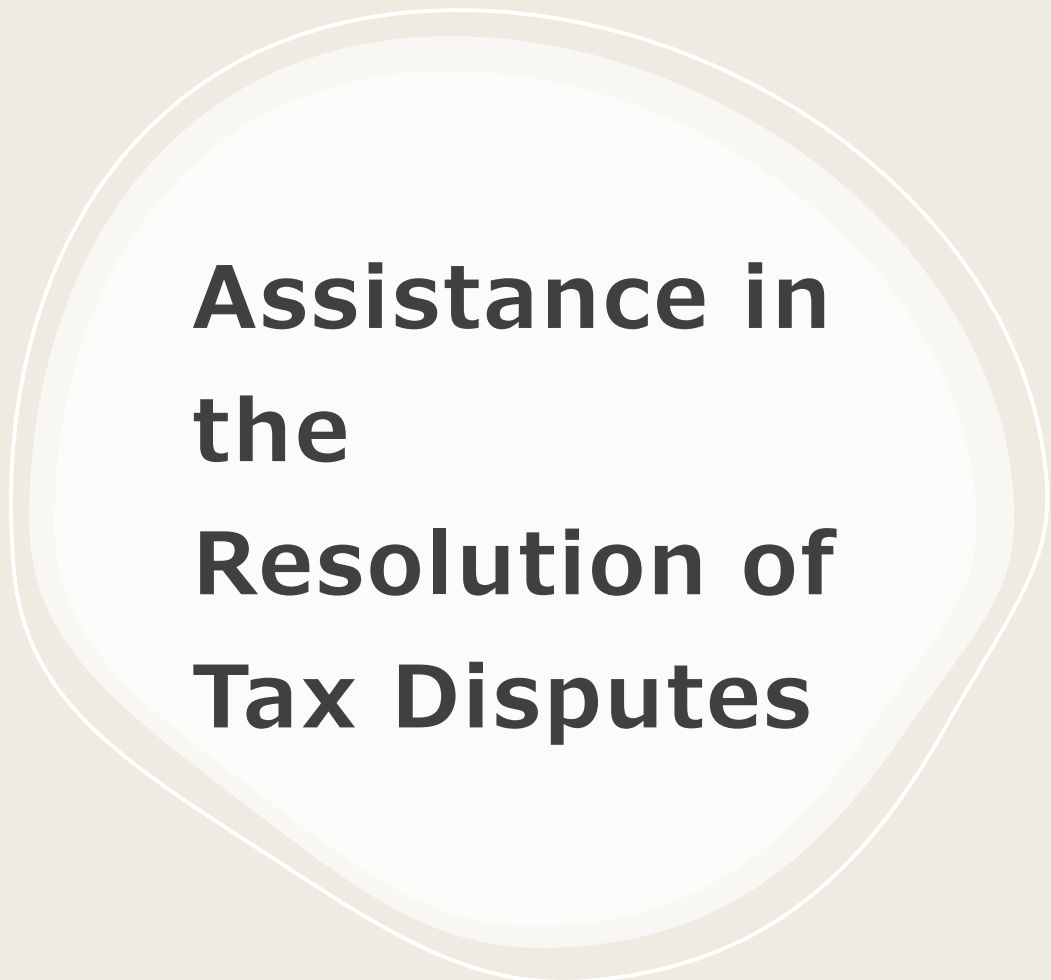
**(b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion**



## **Tax Services Involving Valuations**

**Examples of actions that might be safeguards to address threats include:**

- **Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.**
- **Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.**
- **Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.**



## **Assistance in the Resolution of Tax Disputes**

**A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client if:**

- (a) The services involve acting as an advocate for the audit client before a court in the resolution of a tax matter; and**
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion**



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**Any  
Questions???**

Name \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_